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THE NATIONAL BUDGET SYSTEM AND AMERICAN FINANCE

CHARLES WALLACE COLLINS

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THE NATIONAL BUDGET SYSTEM

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BY

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MEMBER OF THE ALABAMA BAR AND THE UNITED
STATES SUPREME COURT BAR

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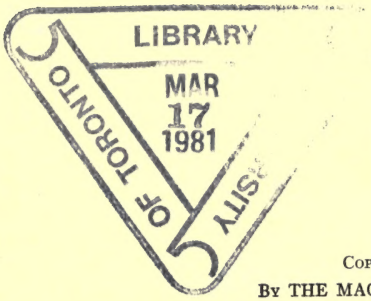

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PREFACE

THIS work is an attempt to show in as brief a compass as possible what the budget system is, why it is said to be needed for the United States, and what adjustments could possibly be made short of a constitutional amendment to secure its adoption. For the specialist and the student of finance there is literature enough on the subject, but although the matter has been discussed from the platform and in the press from one end of the country to the other within recent months, there appears to be no simple and direct description of the budget system and its relation to our government suitable to be put into the hands of the layman.

Public finance is necessarily an intricate and complex subject. It is almost impossible to reduce its terms to simple language. It is therefore ordinarily shunned by the general reader although he himself is directly concerned in the taxation which supports his government. The writer has here attempted, even at the risk of the loss of scientific technique, to make this exposition readable. The work is not intended to be original or exhaustive. If it should serve further to clarify the subject in the popular mind its purpose shall have been accomplished. As an aid to those who might desire to pursue the subject to a greater

depth a short list of recent authorities bearing on the subjects discussed is attached at the end.

In the preparation of this work the author has used portions of an article of his, "Constitutional Aspects of a National Budget System" in the *Yale Law Journal* for March, 1916, and another, "The Coming of the Budget System" in the *South Atlantic Quarterly* for October, 1916. He desires to express his acknowledgments to the editors of these publications for this privilege.

CHARLES WALLACE COLLINS.

Washington, D. C.
March, 1917

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THE NATIONAL BUDGET SYSTEM

THE NATIONAL BUDGET SYSTEM

CHAPTER I

INTRODUCTION

THE word "budget" is used in a variety of senses. In England it is popularly applied to the speech which the Chancellor of the Exchequer presents to the House of Commons when he presents his financial statement setting forth what modifications in taxation would be made to meet the proposed expenditures for the coming fiscal year. In a more correct sense the term has a wider meaning. It embraces the whole scheme or plan of annual finance. Thus the budget may be spoken of as being prepared, as being voted or ratified, as being executed and as being audited and controlled. It goes through all of these stages. In the first stage it takes the form of estimates both of expenditure and of revenue; in the second stage it corresponds to a bill or project of law before the law-making body, in the third stage it is a fund to be spent under certain legal limitations; and in the fourth stage it takes the form of accounts to be audited. Any well-managed corporation or business enterprise would have an annual budget. The

system which puts this into effect is known as the budget system.

This term, however, is usually employed to designate that system of annual finance which is employed by the governments of practically all civilized countries, whereby the executive is made responsible for the preparation as well as for the execution of the budget. We have not the budget system in the United States. In fact the word budget can hardly be used in relation to our financial operations. The legislative branch of our government prepares the financial measures through the committee system. No scheme or plan is drawn up in advance and the financial policy—if there is any—is decided by the party caucus or conference of the party in power. These committees having charge of the various money bills work independently of each other and the bills are reported out at any time during the session. They are treated as other bills and are voted on from time to time as they come up for action. When they pass both houses they go to the executive for his signature of approval just like any other law. The President may veto the entire measure but he may not veto or change any item of which he disapproves.

When the appropriation act is put on the statute books it is left to be executed by the executive under certain safeguards laid down by Congress. But Congress does not exercise an independent control over the execution of these

appropriation acts. The audit is left to the executive.

In the United States no one knows in advance of action, what the government proposes to spend for the coming fiscal year. This can be arrived at only at or near the close of the session by summing up the various bills which have been acted upon. No one person or one group of persons is made responsible for the demands which will be made on the Treasury or upon the taxpayers. Responsibility is diffused amongst a large number of committees both of the House of Representatives and of the Senate and is shared also by the individual members on the floors of the two houses.

The President may recommend financial measures but they have no binding force and may be altogether ignored. His power of veto is limited and cumbersome. On the other hand, his responsibility for the spending of the money and auditing the accounts is complete even to the exclusion of Congress.

The budget system as generally practiced presupposes executive responsibility for the preparation and presentation of all financial measures to the legislature. The best example of this system is found in England where it has been in vogue for more than two hundred years. All of the other budget systems in the various European and Asiatic countries show the influence of the English. In each country there are certain variations due to the difference in forms of government and

national characteristics. For the purpose of illustration we shall confine ourselves to the British, French and German systems, with some further references to the Swiss and the Japanese.

The budget system is easily adapted to those countries which have what is known as the parliamentary or cabinet form of government. The leader of the party in power is chosen as prime minister and he selects a ministry from among the prominent members of his party. The members of this ministry are made the political heads of the respective departments of the executive government. They change with the change of parties. From the ministry the Prime Minister selects a cabinet. The Cabinet decides the party policy, maps out the legislative program, and approves the total amount of money to be spent by the departments of the government.

The members of the ministry are, as a rule, members of the legislative branch of the government and the Prime Minister is the leader of his party on the floor of the popular branch of the legislature. As long as he can control a majority of the votes no legislation can pass without his consent. Should he fail on any important measure he is said to have lost the confidence of the House or Assembly and must either resign or appeal to the people in a new election for a vote of confidence. This system of government is thus essentially democratic but at the same time highly centralized in organization. It is some-

times called responsible party government, which is to say that the party in power is kept there only so long as it retains the confidence of the people. The budget system lends itself however to various forms of government as may be seen in its successful operation in ultra-democratic Switzerland on one hand and imperialistic Germany on the other.

In many respects our system of government stands out in marked contrast to the parliamentary system. Our method of procedure is more cumbersome and less democratic. The President, who is our party leader and exercises many of the functions of a prime minister, is elected for a stated term of four years and retains office during all of this period even when his party has been repudiated at the polls in the biennial election of the House of Representatives. These elections occur at stated intervals regardless of whether the party in power has the confidence of the voters. An adverse vote in Congress on a measure however important effects no change in the status of the parties.

Our cabinet members are not members of Congress nor do they appear on the floor of either house to defend or explain the party policy. Our practice is due to our constitutional theory of the separation of governmental powers into the three co-ordinate branches, the executive, the legislative and the judicial, yet as a matter of fact they are not separated. The President is held responsible by the people for all of the legislation

enacted during his administration. As party leader he is commissioned to carry out the party program. His party's appeal to the voters is made on this basis and he is the person attacked by his opponents for the alleged failure of his party.

On the other hand, the judiciary both legislates and vetoes legislation. By their interpretation of statutes and constitutions new meanings are evolved which were never in the mind of the legislature. The enormous expansion of the "due process," "equal protection" and "interstate commerce" clauses of the Constitution during the past twenty-five years has given us a great bulk of so-called judge-made law. Therefore in considering the possibility of a budget system for America we must bear in mind that although theoretically our government is separated into three co-ordinate branches, in practice the increasing tendency is toward a practical adjustment to the needs of the day. We differ more in theory from the parliamentary form of government than in practice.

The real nature of the budget system will be more readily seen as its various stages are described. It is not possible to do this in the abstract because of the variations in each country. In the chapters immediately following, the British system is made the basis of the study. Variations from this are shown by references to the system in the other countries above mentioned.

In order that the illustrations may be more intel-

ligible a very brief sketch of the governmental machinery, as it relates to finance, is given below for England, France, Germany, Japan and Switzerland.

In England the Cabinet with the Prime Minister at its head, exercises the functions of the executive government. The Prime Minister is named by the King but in reality he is chosen because he is the leader of the party in power. He selects the Cabinet with the formal approval of the King. The King has no authority whatever over financial procedure, administrative or legislative. The members of the Cabinet are members also of either the House of Commons or House of Lords, only an occasional few belonging to the latter. The Cabinet must control a majority in the House of Commons at all times. Otherwise it resigns or appeals to the people for a vote of confidence in a general election. The House of Lords, since the Parliament Act of 1911, has no power to amend or reject financial measures. They give formal assent only.

The Cabinet is directly responsive to and responsible to the House of Commons and thus to the people. They can control the government only so long as they retain, in a very practical way, the confidence of a majority of the representatives of the people. The change of government occurs immediately this want of confidence is shown by an adverse vote in the House on any vital question. This is strict party government. The measures introduced are party measures

with cabinet approval. The party takes the responsibility for their success or failure. Private members have little or no chance to initiate legislation except by persuading the government to adopt their measures as their own.

In France the executive government is in the hands of the ministers nominally appointed by the President. They are usually members of the Chamber of Deputies but have a voice there whether members or not. Each minister has wide executive powers in his own ministry but is responsive to and largely subservient to the Chamber of Deputies. The ministers do not form a compact Cabinet as in England nor are the party lines so strictly drawn. The majority in the Chamber is therefore less stable than it is in the House of Commons. The ministry must resign if it fails to control a majority at any time and a new ministry is formed. This procedure is of rather frequent occurrence whereas in England it would be a notable event.

The Senate is also elective, but is less influential than the Chamber. It has a limited power of amendment over bills carrying appropriations of money.

The Imperial German Government is rendered complex by the fact of the independent German states, of which Prussia is the predominating influence through its King who is the Emperor of Germany. There is no cabinet or ministry. The Imperial Chancellor is the only federal minis-

ter. He is appointed by the Emperor and is responsible to him alone. The Bundesrat is the upper house of parliament. Strictly speaking it is a legislative council composed of instructed delegates who are appointed by their respective states. Its members enjoy the status and privileges of foreign ambassadors at the imperial court. It is controlled by Prussia whose delegates are appointed by the Emperor as King of Prussia, and is presided over by the Imperial Chancellor who is at the head of the Prussian delegates. Its proceedings are not published.

The Reichstag is elected by popular male suffrage from the Empire. Its assent to all laws is necessary to their validity but on account of the imperial control over the Bundesrat whatever measures are approved there as a rule gain the formal assent of the Reichstag. Should the Reichstag give the Imperial Chancellor an adverse vote he does not resign. On the contrary he dissolves the Reichstag and a new election ensues for that body.

The organization of the Japanese government is based upon the Constitution of 1889. It contains elements similar to the German, British and American systems. In fact the Constitution was drawn up only after a thorough study of the governments of other countries. The Emperor retains all hereditary powers not yielded by him to the people in the Constitution. These are, however, exercised largely under the influence of

the aristocracy. He formally approves all legislative projects, including those of finance, before they are introduced. As in Germany the constitutional powers of the Emperor prevent parliamentary government as it is practiced in England and France.

The upper house is composed of the nobility, some of the lesser of whom are elected to seats from among themselves, and of certain eminent persons appointed for life by the Emperor. The lower house is elected by popular suffrage. As to the budget the upper house has the same rights as the lower. The heads of the executive departments—that is the ministry, which forms the imperial cabinet—are appointed by the Emperor and hold office during his pleasure. As to national policy they have an indirect responsibility to the Diet. Their conduct may thus be controlled by means of an address by the Diet to the Emperor. The central idea in the Japanese government is that sovereignty is inherent in the Emperor and that his powers are restricted only by self-limitation as it is expressed in the Constitution.

The democratic government of Switzerland is more nearly similar to ours than that of any of the other countries having the budget system. It is a federal republic. The cantons are "sovereign" states. Both houses of the federal assembly are elected. The lower house or national council is elected every three years. The upper house or

state council is composed of two members elected from each canton. The length of their term of office is fixed by the canton. The executive branch of the government is centered in the federal council which consists of seven members chosen by the federal assembly for a period of seven years. All legislative authority is vested in the assembly and it has complete control over finance. One of its powers expressly given by the Constitution is "the determination of the budget." The members of the federal council have seats and a voice in both houses but have no vote. They do not resign upon facing an adverse vote in the assembly but adjust their policies to meet the situation.

CHAPTER II

PREPARATION OF THE BUDGET

THE budget in its first stage takes the form of estimates of expenditure and of income. These estimates are prepared in the executive departments under some centralized supervision. They show in itemized detail what the government proposes to spend and for what purposes and where and how the money will be raised to meet this outlay. For the purpose of comparison the items of the budget for the current year are set in parallel columns to those of the estimates. A balance sheet is presented giving the totals to be spent in each department, an estimate of the total revenues, and certain other totals by way of comparison with former years.

Since these estimates are not merely for the information of the legislature but are the real basis of legislation they are required to be prepared with the utmost skill, patience, and honesty. This work is done by trained experts in the respective departments who are in the permanent service of the government and who have nothing to do with the policy of the party in power. They simply set down the bedrock needs of their departments under the financial policy agreed upon by their political superiors.

Under the British system the Cabinet settles the financial policy. They approve the total amount of money to be spent for all purposes and the method of raising revenues to meet the expenditures. These totals are presented to the Cabinet by the Chancellor of the Exchequer for the civil departments and by the First Lord of the Admiralty for the navy and by the Secretary of State for War for the army.

The Treasury is responsible for the preparation of all the estimates except for the Army and Navy. Over the latter it exercises a control over those expenditures common to any office but those branches themselves are responsible for the estimates for those services involving professional knowledge or technical skill. The chief political official of the Treasury is the Chancellor of the Exchequer. His immediate subordinate is the Financial Secretary to the Treasury. Both of these officials are members of the ministry and of Parliament. The real work of the Treasury is done by the permanent staff which is headed by the Permanent Secretary to the Treasury. Under him are six principal clerks each at the head of a division of the Treasury, each of whom has supervision over a certain number of the spending departments.

In each of the civil departments of the government there is an accounting officer. He is usually the permanent head of the department. He is appointed by the Treasury and is responsible to

the Treasury for the financial administration of his department. His immediate superior is the political head of the department but he cannot escape responsibility to the Treasury by obeying his chief in the matter of a financial irregularity. He is bound to obey but he is also bound to record his protest in writing so as to bring it to the attention of the Treasury.

The accounting officer is in constant intercourse with the Treasury throughout the year. Any change, expansion, or new work involving an increase of expenditure for the coming year must be specifically approved by the Treasury before it can be put into the estimates, such as new offices, increase of salaries, and the like. The existing items of expenditure are also reexamined before they are renewed for the coming fiscal year. The Treasury therefore knows about what items are going into the estimates before they are prepared. As regards this the Treasury always fights on the side of economy and it is considered by the British public to be the greatest protection to the taxpayer. The departments have the right of appeal from a Treasury decision to the Cabinet but it would take a strong case to upset Treasury influence there.

Toward the last half of the fiscal year the Treasury calls upon all of the civil departments for their estimates of expenditure for the coming fiscal year. This means the putting into final form what has been agreed upon throughout the

year as the points have arisen. The expert accountants in the departments do the actual writing down of the items. The accounting officer approves them and takes them to his superior, the political head of the department, for final departmental sanction.

The estimates are next sent in to the Treasury, where the estimates clerk goes over every item and checks them up with the Treasury sanctions which he has on file. If he finds any irregularity, such as the presence of an item which has received no previous Treasury approval, he brings it to the attention of the principal clerk of the appropriate division of the Treasury. This official deals directly with the department. If the irregularity is of considerable importance it is also brought to the attention of the higher permanent and political officials of the Treasury.

When all of the civil service estimates are checked up and approved they are then classified and a digest made giving a view of the whole service in summary form compared with the expenditure of previous years set in parallel columns. The Financial Secretary writes explanatory notes to the estimates and such other introductory matter as may be necessary. The whole is then sent to the printer in time to be ready for the opening of Parliament. It must be borne in mind that these estimates are the revised, scrutinized, criticised and rock-bottom figures for the running expenses of the departments for the next fiscal year.

The War Office and the Admiralty have their own finance departments which are very highly organized. The annual estimates are prepared there under close departmental supervision and control on the basis of the total amounts allowed them by the Cabinet for all purposes. Treasury approval must, however, be secured for all new items or increases. Where these involve questions of policy or where they involve technique and strategy, this approval is merely formal. The completed and final estimates as approved by the Army Council and the Board of Admiralty respectively for the army and the navy are sent to the Treasury for formal examination and to be printed.

In the meantime the Chancellor of the Exchequer, who is the finance minister, has been busy estimating the revenues for the coming year on the basis of existing taxes. As soon as he is aware of the total demands of all of the spending departments on the Treasury he proceeds to devise methods of adjusting revenues to expenditures. He has numerous reports from the revenue departments, conferences with his colleagues in the Cabinet and with certain business organizations. His aim is to provide exactly the amount of revenues to meet the expenditures—no more and no less. The history of the British budgets shows that this ideal has been realized with remarkable skill. When, as is usually the case, the estimated expenditures exceed the estimated revenues, the Chancellor of the Exchequer

draws up the necessary proposals for new taxation. This ordinarily takes the form of an increase in one direct and one indirect tax. These proposals are submitted to the Cabinet for approval and become a part of the budget.

Thus it is seen that in the preparation of the British budget the executive branch of the government, principally through the Treasury and in a lesser degree through the War Office and the Admiralty, takes full and complete responsibility.

The preparation of the French budget differs in several important respects both as to principle and method from that of the British. Responsibility is more scattered in the executive government itself on the one hand and on the other the legislative branch of the government may be said to have a share in preparing the budget. The minister of finance is responsible for the estimates of his department only in the same way that each minister is responsible for the estimates of his own department. When the departmental estimates are turned in to him they have already been revised and approved by the appropriate minister and are in exactly the form in which they will be placed before the assembly for ratification.

The minister of finance takes these various estimates and organizes them into a consistent whole. He also is under obligation to devise the means of raising sufficient revenue to meet the total expenditure of the budget. He writes an introduction to the budget and draws up the

budget bill. The details of these duties of the minister of finance are performed by the Budget Division of the Bureau of Public Accounts. The main point of difference to be noted in the preparatory stage of the budget between the British and French systems is that in the latter executive responsibility is divided. The finance minister has no power to revise the estimates of his colleagues. He is limited to persuasion and this, if he has a strong personality, may have considerable effect. He is at no time complete master of the situation as is the British Treasury nor has he any organization for that purpose.

The method of preparing the budget in Germany is similar to that in England. The departmental estimates are sent in to the Secretary of the Imperial Treasury who has the power of reduction and revision. No new items can be added nor any increases over the existing grants allowed without his approval. The Imperial Treasury is thus responsible for the budget in its preparatory stage. An appeal may be taken from its decision by the secretary of the ministry concerned to the Imperial Chancellor. In this respect the Imperial Chancellor is made more powerful than the English Chancellor of the Exchequer. His decision is more nearly analogous to that of the British Cabinet itself, but with this distinction—he has only to gain the Emperor's approval for his policy whereas the British Cabinet must at all times hold the confidence of the people.

All of the government expenditures do not appear in the German budget. Expenditures for the army and navy are fixed by law for a period of years and therefore do not appear in the annual estimates. The revenue laws are usually permanent and are not revised each year.

The Secretary of the Treasury presents the estimates to the Imperial Chancellor whose approval is necessary. The Emperor must also formally approve them before they are submitted to the legislative branch of the government. As with certain other bills the Imperial veto may be exercised on any item of the budget before its introduction. Executive control of the preparation of the German budget is therefore as complete and as centralized as the British but the responsibility is to the Emperor rather than to the democracy.

The Japanese budget system contains many features of the English, the French and the German. The head of each ministry submits provisional estimates for his ministry to the minister of finance. The account bureau of the ministry of finance works these up into a general budget and the minister of finance prepares the estimates for the revenue. He then submits the whole budget to the Cabinet for approval. The decision of the cabinet is communicated to the minister of finance and he in turn notifies all of the ministers to prepare their final estimates on the basis of the cabinet decision. The estimates then

come back to the minister of finance, then to the account bureau, and then to the Cabinet for formal approval. The Cabinet submits the revised estimates to the Emperor for final approval. No financial measures can be introduced into the Diet without the Emperor's approval.

The preparation of the Swiss budget follows the usual course. The assembly has delegated entire responsibility to the executive. The estimates are brought together in the departments and approved by the departmental heads. They are then sent to the Bureau of Finance in the Department of Finance where they are verified, co-ordinated and compared with previous decisions. They are not revised by this bureau. When the bureau has completed its task the estimates form a provisional budget. They are then submitted to the Federal Council which in its collective capacity is vested with the executive power. The council, being responsible for the financial policy revises the estimates and gives them final approval. The budget is then ready to be submitted to the assembly as a project of law.

In sum, in the budget system, the preparation of the annual estimates is done by the executive branch of the government. They are revised and cut down to the actual needs of the departments and are classified, co-ordinated and summarized by the central financial authority. When the total demands for expenditure are known the revenue measures are proposed to meet them. The

aim is to raise just enough revenue to meet the expenditure; in other words, to tax the people no more than is absolutely necessary. The entire estimated budget is bound in book form with introductory notes showing the financial condition of the country, the result of the operation of existing financial measures, a résumé of the demands of the budget submitted, comparative figures for a number of years past and such other information as may be of use in making the budget clear to the legislature and to the public. When the preparatory stage is completed the budget corresponds, in theory, to all of the appropriation bills and revenue measures of our House of Representatives, after they have gone through the Committee stage and are ready to be reported out to the House. This comparison can hardly be made, however, because our money bills are reported out at different times during the session. A single departmental estimate, after its approval would more correctly correspond to one of our bills for such a department, for example, that for the Department of Agriculture, at the Committee stage above mentioned.

CHAPTER III

RATIFICATION OF THE BUDGET

THE budget estimates are presented to the legislature by the executive in the form in which they are to be discussed and debated. This occurs soon after the opening of the annual session. In England the Treasury submits the civil service estimates, the First Lord of the Admiralty the navy, and the Secretary of State for War the army estimates. The House of Commons considers them, item by item, on certain allotted days, sitting in committee of the whole. No standing committee or select committees examines the estimates before they are received on the floor of the House. The House recognizes the executive responsibility for finances as complete. Somewhat over two hundred years ago it adopted a rule that it would consider no motion or proceeding that would put a charge upon the public revenue unless the executive recommended it. This rule or standing order has remained continuously in force until the present time and may be regarded as a part of the British constitution. In practice it means that no amendments are made in the Commons increasing any of the items of the estimates. Furthermore no shifts are there made in any of the items and no de-

creases except with the consent of the executive. Private members have no power to initiate financial measures.

In other words, the estimates pass the House in the form and for the amounts as they are introduced. In order to keep the executive responsibility intact the House gives it what it asks for but, as will be seen, holds it to a strict accountability both for the regularity of the accounts and for efficiency and economy in the management of the services.

This procedure in England is very much simplified by the fact that the executive—that is the Prime Minister and the Cabinet—are members of Parliament and at all times control a majority of votes in the Commons. Should the opposition become strong enough to reduce any important item in the budget it would show that the executive no longer had the confidence of the House. This would either mean a dissolving of Parliament and a new election or a resignation of the Cabinet and the formation of a new ministry from the Opposition. This procedure is however of very rare occurrence.

The estimates are very much debated regardless of the fact that no changes are made. The Opposition are allowed to select what department they desire to discuss. According to this system the estimates are not taken up in logical order. The debate is largely political. The lines of cleavage are on the matters of policy which divide

the great parties. This is the opportunity for the Opposition to give public expression to their discontent at the way the government is being run, and when particular items are up the department in question is subject to specific criticisms and attack.

The departmental heads are there on the floor of the House to answer these attacks and to explain any doubts as to the real purpose of the proposed expenditures. When debate has been concluded on a given item or "vote" the vote is taken on the total for the particular service under consideration. Only the main heads or items are voted, hence they are called "votes;" for example there are fifteen each for the army and navy. Twenty days are allotted for debate on the estimates after which time it is automatically shut off and the remaining items passed at one vote. The estimates are not voted on twenty consecutive days but on twenty allotted days from February to August.

Sometime in April, soon after the close of the fiscal year, the Chancellor of the Exchequer presents to the House his plan for providing revenue to meet the estimates. This also is debated in Committee of the Whole after the manner of the debates on the estimates. No changes are made in the scheme proposed, the executive government taking entire responsibility. This revenue bill is known as the Finance Bill and when passed it becomes the Finance Act. When the estimates

are all voted the Appropriation Bill is introduced to cover all of the expenditures. Upon its passage it becomes the Appropriation Act which makes the money called for by the estimates available. The House of Lords gives formal assent to the action of the Commons and the King signs the two acts as a matter of course. There is no power of veto.

Under the French system the estimates are submitted to the Chamber of Deputies as a project of law under the name of the budget bill. It is in the form of a bound volume divided into chapters. Each chapter forms the subject of a vote.

The Chamber of Deputies refers the budget bill to the Budget Committee. This committee is composed of forty-four members chosen by the Chamber on the basis of party representation. The sessions of the committee are not public. It has the power to eliminate or reduce items and even to increase or add new items. It may rewrite the budget bill or it may reject it entirely and return it to the minister of finance with a demand that he write a new bill. There is a constant struggle between the minister of finance and his colleagues and the committee. The committee makes a general report on the budget bill to the Chamber and a number of special reports on the expenditures for each department.

The budget bill now goes to the floor of the Chamber for debate. The ministers are there on the floor to participate in it. The deputies have the

right, under certain restrictions to offer amendments to the budget bill. These restrictions are that no amendments can be offered to increase any item or to add any new item relating to salaries, compensations, or pensions, and that all other amendments shall be limited in time to the early stages of the consideration of the bill. The bill is debated chapter by chapter and voted on until the whole expenditure side of the budget is disposed of. Then the revenue proposals are debated and voted. This is followed by a formal adoption of the budget bill as a whole.

The budget now goes to the Senate. The power of the Senate over finances is very much limited. It may not add any new items. It may propose the restoration of items which the Chamber of Deputies have at some stage of the budget bill eliminated. It may also propose the reduction or the elimination of any item. The Finance Committee of the Senate consists of twenty-seven members selected by an artificial division of the Senate into nine divisions or "bureaux," three members being taken from each bureau. This committee is formed at the time the government introduces the budget bill into the Chamber. It begins work on the bill at once and keeps informed at all times on the progress of the bill in Chamber. When it reached the Senate the Committee is ready with its report. Debate is similar to that in the Chamber. Upon its passage by the Senate the bill goes back to the Chamber for the

consideration of the Senate amendments. It may pass back and forth several times before final agreement is reached. If the Assembly refuses to pass a budget bill the ministry is compelled to resign and a new ministry formed which will control a majority of the deputies.

As compared with the British the French system is more complicated and less efficient. Responsibility for public finance is divided between the executive and the legislative branches of the government. The budget may be changed both in committee and on the floor of the Assembly in either house. In England the budget is considered only by the Commons sitting as a Committee of the Whole House and no changes are made except with the consent of the executive. Both the British and the French treat the budget as a unit. This insures the consideration of the national finances from the point of view of a connected and complete transaction, each part being related to the whole and gaining its meaning therefrom.

Under the German system the approval of the Emperor has practically the force of ratification of the budget. The Imperial Chancellor, who is the Emperor's personal representative, introduces the budget into the Bundesrat, the upper house of the legislature. No changes can be made in it without the consent of the Prussian members, at the head of whom is the Imperial Chancellor. This means that the budget is formally approved

by the Bundesrat with such amendments as may prove acceptable to the Emperor. The non-Prussian members do however keep a close watch over the items relating to their respective states and see to it that their constitutional budgetary rights are protected.

Upon approval by the Bundesrat, the budget estimates are introduced into the Reichstag by the Imperial Chancellor with the budget bill. Along with these he presents to the president of the Reichstag a list of members of the Bundesrat who are authorized to take the floor in behalf of the imperial government. General debate ensues during which the secretary of the Imperial Treasury makes a general statement on the budget and the financial situation in the Empire. The budget is then referred to the Budget Committee—a committee similarly constituted to the French Budget Committee but having little or no power. The committee goes over the whole budget and hears the views of the government from the designated officials. It makes a general report and special reports to the Reichstag and proposes amendments.

Debate on the budget in the Reichstag follows the usual lines, criticisms of the government's policy being freely made. The proper government representatives are on the floor to explain and defend the stand taken. The Reichstag can make no change in the budget without the consent of the Bundesrat, that is, without the consent of the imperial

government. Amendments are proposed and debated, but they cannot be enacted upon the authority of the Reichstag. Should the Reichstag refuse absolutely to accept the budget the existing budget would remain in force. When, as is the usual thing, the Reichstag approves the budget, it is sent back to the Bundesrat and then promulgated by the Emperor.

The German budget system, in securing the ratification of the budget by the legislative branch of the government, accomplishes the same result as the English but upon a different principle. In England the House of Commons is all powerful over finance but has of its own accord made the executive government completely responsible for the terms of the budget. To this end the Commons refrains from making any changes. In Germany the popular branch of the legislature, the Reichstag, has no inherent power over finance. The executive responsibility is complete but it is a self-imposed responsibility. In both England and Germany the budget is ratified in practically the form in which it is introduced. In France the Assembly may make changes without the consent of the executive.

The power of the Japanese Diet to change the items of the budget is very much restricted. It cannot increase any item of expenditure. It may decrease certain items which do not come under the head of fixed charges. Over the revenue provisions it has more power and may modify existing

taxation or may impose new measures. The House of Representatives and the House of Peers have co-equal powers as to the budget.

The Cabinet submits the budget to the House of Representatives where it is referred to the Budget Committee. It is reported out with the committee's amendments and after the usual debate, is adopted by the House. It goes to the House of Peers where the same procedure is had. Disagreement between the two houses is settled by a joint conference committee. The budget as finally approved goes to the Emperor for his formal sanction.

As to the ratification of the budget in Switzerland, the two houses have the same powers. The members of the Federal Council have seats and a voice in either house. The National Assembly has full authority to change the budget, but this power is rarely exercised. According to the political tradition when the majority of the Assembly do not agree with the executive on an item of the budget the latter do not resign neither does the Assembly force a change in the budget. They invite the executive to change their position and according to custom they are supposed to accede to the wishes of the Assembly. The budget is ordinarily approved without serious change.

The budget estimates are submitted to the Assembly by the Federal Council and are immediately referred to the Finance Committee of the house which first receives it. According to the

practice the budget bill is introduced into one house one year and into the next house the next so that one of the houses gains priority each alternate year. Each house has a finance committee. This committee considers the estimates in detail and refers it back to the Federal Council with amendments. The latter are invited to accept these and usually do so. The bill then goes to the Assembly for the usual debate which consumes only a few days each year.

CHAPTER IV

EXECUTION, AUDIT AND CONTROL OF THE BUDGET

THE method of spending the money provided by the legislation for the annual expenses of the government may be efficient without the idea of a budget system, but where the budget system is in vogue the act of spending is one stage in a logical scheme. In England, as has been seen, the executive government is allowed to spend exactly the amount it requests. The budget comes back to the departments to be spent in the same form as it was when it left in the shape of estimates approved by the Treasury. The same is true in Germany.

The revenues provided for in the budget are collected by the revenue departments and placed to the credit of the government where it is paid out as provided for in the expenditure side of the budget to the departments under the safeguards provided by law. In England the money is deposited in the Bank of England to the credit of the government as any other bank account. The Treasury makes requisition from time to time to an officer of the House of Commons who grants a credit to the Bank after having satisfied himself of the legality of the claim on the budget. In France the revenues are collected under the supervision of the Minister of Finance and deposited in the

Bank of France where it is carried as a regular account by the Treasury. It is paid out to the departmental heads upon orders from the ministers sanctioned by the Minister of Finance. In Germany the revenues are deposited in the Treasury or sub-Treasuries and paid out therefrom to the departments.

The question of accounting and audit forms the last stage of the budget. As a means of control over the management and the expenditure of public money it is perhaps the most important to be considered. Conformity of the accounts to the items of the ratified budget; efficiency and economy in the letting of contracts for purchasing of supplies, building new works and the like—such questions as these are determined at this stage.

In England, the Treasury, through the accounting officers in every department, manages the public funds, enforces efficiency of method and economy in the use of the money. The Treasury is at all times aware of the financial activities of all of the departments and controls them in the interest of the public. The accounting officers themselves are the highest permanent officials in the Department and the internal detailed control of departmental finance is in their hands. They are responsible not only to the Treasury but must account to Parliament for the proper expenditure of every item of that part of the budget granted to their respective departments. These are called appropriation accounts.

The House of Commons enforces a strict compliance with this rule through the Comptroller and Auditor-General, an independent parliamentary officer who is at the head of and controls the Exchequer and Audit Department, and through its Committee of Public Accounts to which the Comptroller and Auditor-General reports the result of his audit. This report reveals any irregularity in the accounts—whether of loss, waste, fraud, extravagance or incompetence—that would appear on the face of the accounts as compared with the original grants or that might be revealed by the papers on file in the department.

The Public Accounts Committee has its duty imposed upon it by statute and is the most important agency of securing parlimentary control over the budget. It is a standing committee of fifteen members, the Chairman of which is chosen from among the Opposition. It is thus free to criticise the government. It meets once or twice a week throughout the session. It takes the appropriation accounts and the report of the Comptroller and Auditor-General thereon and examines each point raised by him. They may go much further than he and follow up with a complete investigation any serious irregularity. It calls before it as witnesses the accounting officers and any other employees of the government they see fit, and subjects them to a rigorous public examination concerning the points in question. The questions and answers are printed along

with the committee's report and submitted to Parliament. If an irregularity is not explained to the satisfaction of the committee it has the power to refuse to sanction the payment of the money. As a consequence of this procedure the servants of the government stand in awe of this committee and are careful to conduct their departments in a manner to escape its criticism. The committee is non-partisan and its members are not paid.

The report of the committee goes also to the Treasury where action is taken in regard to every suggestion or recommendation made in it, the results of which are printed in the committee's report of the next session. Thus it appears that the cycle of control over the British budget is complete, according to where the responsibility lies—internal departmental control under the accounting officer, Treasury control over the whole field of departmental finance during the preparation and the execution stage of the budget, and parliamentary control after the money has been spent to see that the accounts are regular and in complete accord with the items originally sanctioned by Parliament. One of the strong features of parliamentary control is the audit of the Comptroller and Auditor-General. He is absolutely independent of the Treasury and of the executive government. He is appointed for life at a high salary which is made a permanent charge, and his duties are set forth by statutory enactment.

Under the French system internal departmental

control over expenditures is in the hands of a board of control which makes an annual report of the accounts to the Minister of Finance. Here they are examined by the Bureau of Public Accounts and a general account of the finances prepared. This is submitted to an independent commission of nine members appointed annually by the President of France from among the members of the Assembly and from other government officials. The commission compares the accounts with the original records and reports to the Assembly.

In France there is a further control of a judicial character somewhat similar to certain phases of that of the Comptroller and Auditor-General and the Committee of Public Accounts in England. The Minister of Finance submits all of the accounts to the Court of Accounts. This court is composed of judges who are appointed for life. Officers of the court make a detailed study of the accounts and report any irregularity or discrepancy between the parliamentary grants and the items expended. The court sits and deliberates on these and renders judgment. It does not judge the officer responsible for the irregularity. The work of the court is done when it has decided upon the correctness of the account. It rests with the Minister of Finance to initiate proceedings to penalize the official responsible for the irregularity whether it be civil or ciminal. The Court of Accounts makes an annual report to the Presi-

dent which is printed. The final act in the French budget system is the passing by the assembly of the law of accounts—an act of formal approval of the expenditures of the budget. Thus in France there is executive control through the departmental boards of control and the Minister of Finance, an independent administrative control through a commission, and a judicial control through an independent court. Parliamentary control is limited to formal sanction.

Under the German system control over the expenditure of the budget is entirely in the hands of the Imperial Accounting Department, an institution of the executive branch of the government. Its members are nominated by the Bundesrat and appointed by the Emperor. It is responsible directly to the Emperor. This organization has complete powers of audit and control. Through its large body of expert accountants and statisticians all of the current expenditures of the departments are audited and irregularities noted, except certain funds spent by the Foreign Office for political purposes and certain other secret funds of the government.

The Imperial Accounting Department also passes judgment upon any irregularities disclosed by making a ruling on the points presented. The ruling is enforced by imperial decree. A general account, and later a final report, on the execution of the budget is submitted to the Bundesrat and to the Reichstag. These reports are made several

years after the expiration of the fiscal year with which they deal and afford the legislative branch of the government no means of control. Its approval is merely formal. Thus in the German system the executive controls the budget completely in all of its stages. There is no parliamentary, or independent administrative or judicial control.

The Japanese budget is executed under the general supervision of the Minister of Finance. The funds—receipts and expenditures—are handled by the Bank of Japan. Complete accounts are rendered by each minister to the Minister of Finance who makes out a general account and submits it to the Board of Audit, an independently constituted body. Here the entire account is examined and compared with the original grants in the budget. The accounts with report of the Board of Audit are submitted to the Cabinet and to the Emperor for approval, and then to the Diet. Both houses refer them to their respective special committees which submit their conclusions to the houses where the decision of the Diet on the accounts is rendered.

The Audit of the accounts in the Swiss system is done in the Bureau of Finance. The accounts are submitted to the national assembly where they receive close and detailed attention. The debate on the accounts before they are ratified form one of the most vital of all of the legislative activities of the Swiss National Assembly.

CHAPTER V

FEATURES OF THE BUDGET SYSTEM

NEARLY all of the points set forth below may be said of the British budget system and most of them apply to the budget systems in other countries.

Under the budget system the finances of the nation for any given year are considered and treated as a unit. The whole scheme is brought together in one comprehensive statement, in summary and in detail, of the expenditures on one hand and the revenues on the other. At every stage of procedure, from the presentation of the estimates to the auditing of the accounts, a complete view of the whole financial program of the government can be had at a glance.

Equilibrium is also assured. The expenditures for the departments are considered in relation to each other and to the national income. The budget is prepared with this idea in mind. The Treasury, or some central authority over finance, receives the demands of the departments and reaches a decision as to them from the standpoint of the public service as a whole. Thus all of the proposed departmental expenditures are co-ordinated so that they balance with each other, and with the estimated revenues, in the financial policy for the year.

Responsibility for the preparation of the budget rests entirely upon the executive branch of the government. It is made responsible to the legislative branch or that house or chamber thereof which is elected by the people. The departments spend the money provided in the budget. This expenditure involves in the departments expert knowledge of all kinds and every conceivable kind of technical skill and scientific training. As a consequence the executive branch alone knows what are the needs of the government. It is the logical agency to bring forward the financial program. With a strong Treasury supervision and the numerous other checks in force the executive is put on its mettle to prepare a budget that will meet the approval of the country.

The legislature to which the budget is submitted for approval is responsible directly to the people. It may reject the budget altogether. It does not disturb the balance of the budget by changing any of its provisions without the consent of the executive. Private members may not as a rule offer amendments. The budget goes through as a unit. The minority, being naturally in opposition to the government's policy, are given ample opportunity for protest and criticism. This public criticism by representatives of the people is a strong check on the executive. No vital defect in the budget escapes the eye of the opposition, and all questions which involve differences in party policy are given a thorough airing.

In placing all of the administrative work on the budget upon the executive, the legislative branch is left free to devote its time to substantive legislation and to concentrate upon review and criticism so far as the budget is concerned. This is a vast saving in time effected by a logical division of labor between the legislature and the executive.

The budget system nationalizes public finance. It has the nationalistic point of view. Every item of expenditure is made for national purposes. Local influences of a political nature seeking to have money spent for public buildings or internal improvements such as roads or waterways must put their claims before the executive before the budget is prepared and have their cases decided on their merits. After the budget is presented to the legislature there can be no "log-rolling" methods or pooling of interests by its members to secure funds to be spent in their districts. A locality deserving a post office building would have to gain the sanction of the Post Office Department. After an examination of all of the facts the Department would come to a decision. Should it be favorable to the project the department would have further to gain the assent of the Treasury before the item for that building could be put into the annual estimates for the Post Office Department. Both the department and the Treasury would look at the matter from the national point of view.

The budget is brought forward by the executive as a business program for the year. The whole plan of the nation's finances is clearly set forth so that every one may know exactly what the government proposes to spend and where the money is coming from to meet the outlay. This is done in advance of any legislative action. The scheme is carefully prepared, printed and bound and is given to the public at the same time that it goes to the legislature. The whole nation knows in advance what the government proposes to do with the people's money. The newspapers give the budget wide publicity. It becomes a topic of daily conversation all over the country. It is something concrete—something that the average man can grasp and become interested in. Thus the budget ministers to the national spirit.

The budget system renders the national finances more democratic. It takes away the mystery of secret influences and in its place it has a procedure that is open and accessible. The public is taken into confidence as regards the nation's finances. It is assured that what is being done is for the public benefit only.

Economy is effected by the budget system. The Treasury stands as a safeguard against waste and extravagance. The program that is submitted to the legislature for ratification represents the actual bedrock needs of the government. Every item in the estimates has been threshed out by experts and scrutinized by the Treasury. Many

claims for new expenditures and increases have already been modified or rejected during the course of the preparation of the estimates. The legislature forbears from making any increases. The influence of oratory or sudden feeling in debate has no influence on the budget. Extravagant improvements, immature schemes of reform, or any of the many sudden demands upon the Treasury which naturally arise in a legislative body which freely exercises the right to initiate financial legislation without the consent of the executive, are excluded from the budget system. The legislature may criticise and review the budget and see that it is properly executed but it may not increase the sums asked for by the executive for running the government.

The budget system enables the government to have a financial policy. The executive departments are thus allowed to operate and develop according to a stable and consistent plan. For example, the Department of Agriculture or the Department of Education may lay out a scheme of operations extending over several years although only one year's expenditure at a time appears in the budget. The direction of the whole government service is thus in the hands of the executive. The financial policy must, however, in every case gain the approval of the legislature. This is the check against executive usurpation. The legislature may reject the policy entirely but it does not substitute a new one in its place. The executive would

modify its policy to meet the wishes of the legislature or a new executive would be selected from among the leaders of the party which rejected the policy in question and a new policy would be formulated to meet the wishes of a majority of the representations of the people.

Although the executive is apparently possessed of enormous power in being allowed both to formulate and to execute the financial policy of the nation, in reality it is a burden placed upon the executive by the legislature. The responsibility of the executive to the legislature, the necessity for legislative approval of the financial policy, and the means of control over the expenditure, place the legislature in a commanding position while at the same time relieving it of the drudgery of administrative responsibility.

As an outgrowth of financial policy the executive is made responsible for the military and naval policy of the nation, subject to legislative approval. The Cabinet or ministry, which are nothing more than the selected leaders of the party in power, agree on the amount of money to be spent on the army and navy. This necessarily carries with it the power and responsibility to fix the programs for these services. These are carefully formulated by boards and councils of experts, professional officers in the active service, and civilian officials of long experience in these affairs. The proposals they put forth are considered by the Cabinet from the standpoint of party policy and under the

influence of public opinion. The decisions they reach determine the financial policy for the army and the navy. Thus under the budget system the executive initiates the army and navy reforms and reorganizations, decides on the kind and number of ships and personnel, or on the adoption of new equipment or methods. The legislature criticises and reviews the policy thus formulated and approves or rejects it. A rejection would carry with it a rejection of the whole budget—in fact a rejection of the ministry itself and the party which it leads.

The budget system carries with it the idea that the heads of the executive departments have seats in the legislature and a voice in debate. They are not necessarily members of the legislature although in England they are. It is necessary that they be present to explain to the legislature the expenditures proposed in the budget for their respective departments; to justify the policy involved in it; and to defend themselves against attack and criticism in regard to the management of their funds in the past or against alleged defects and incompetence in the personnel or the administration of the departmental affairs. These debates occur as the budget is being considered for adoption, item by item. For example, an item in the appropriations for the Department of Agriculture for the eradication of a cattle disease in a certain locality may be up for consideration. A member may arise to complain that his constituents are being discriminated against and that his district

should be included in this work. The head of the Department of Agriculture would have to explain the purpose and scope of the item and justify its operation in the area prescribed. The presence of the representatives of the executive government on the floor gives the legislature an opportunity to gain immediate answers to its questions about the public service.

Another feature of the budget system is the audit of the accounts made by an agency independent of the executive and reporting to the legislature. The audit department is established on a firm basis and its officials given permanent tenure of office. It has access at all times to the books and papers of the spending departments. It calls for explanations of apparent irregularities or deviations from the legislative grants in the budget and if these are not satisfactory the attention of the legislature is called to them in the annual report of the audit department. Each year the official responsible for the administration of the finances of his department is required to submit to the legislature a complete account showing how his expenditures accord with the estimates as ratified by him. The audit department submits its report on these accounts at the same time. The legislature thus has before it after the close of each fiscal year the means to check up the executive and to call it to account.

In the budget system the idea of control is highly developed. There is a central financial control in the executive government which may be called

the Treasury. The Treasury is responsible for the form of the budget and for seeing that expenditure balances with income as far as that is possible. It therefore exercises a control over the demands from the departments. It must keep them within bounds and must also see that what is approved is actually needed. It balances department with department, and taking into consideration the financial policy for the year it sees that a harmonious budget is produced.

Over the actual expenditures of the money by the departments the Treasury exercises a supervisory control, being called into consultation on all doubtful points. Control over the detailed expenditure of the departmental funds is left to the administrative head of the department. He is made responsible to the Treasury for the efficiency and economy of method in handling the funds and to the legislature for the regularity of his accounts.

Perhaps the most important phase of control over the budget is that exercised by the legislature. By holding the executive responsible to it for the financial policy and for the preparation of the budget, it is free to review and to criticise. This is one phase of legislative control. It has its effect, indirectly, on the preparation of the estimates. The executive is careful to avoid a policy which would be open to just criticism by its political opponents. The criticisms of the minority, ever on the alert for defects in the policy of the party in power, has a wholesome effect upon the nation's finances.

The most powerful means of control which the legislature has is through some agency which receives, examines and judges the audited accounts. In the English system this is done through a standing committee of the House of Commons, the legislative control being here more direct than through the reports of the Court of Accounts in France. Every question raised in the auditor's report on the accounts is considered by the committee in open session. The departmental officials concerned are called in and put on the witness stand and rigidly examined. If the explanations made are not satisfactory to the committee, the committee reports the matter both to the Treasury and to the legislature for appropriate action. The questions and answers are printed along with the report. The committee or other agency for this work is non-partisan. It may disallow payments irregularly made. In case of fraud or embezzlement criminal action is taken at the instance of the Treasury. The committee only recommends and suggests action to the Treasury and the latter renders a written report to the committee on each irregularity brought in this manner to its attention.

Thus in the budget system the cycle of control over public finance is complete. At all stages from the beginning of the preparation of the estimates to the final examination of the audited accounts either the executive or the legislature is exercising a direct control over the whole budget.

CHAPTER VI

PREPARATION OF FINANCIAL MEASURES IN THE UNITED STATES

FINANCIAL procedure by the government of the United States stands out in marked contrast to that of other civilized nations. It has hardly any of the features of a budget system—in fact it can hardly be said to have a budget at all in the sense that the word is ordinarily used. The complex system that we have developed is rendered all the more conspicuous in that we are now spending in normal times nearly two billions of dollars a year.

In the preparation of bills carrying appropriations for the annual expenditures of the executive departments, it is not easy to draw a distinction between the work of the executive and that of Congress in the earliest stages of these measures. It is ordinarily assumed that the preparation begins with the estimates made by the departments. This is true in theory only. The estimates do not in fact form the basis of financial legislation as will be shown. In fact financial measures are not fully prepared until they reach the final vote in both houses of Congress.

Toward the close of the first quarter of the fiscal year, in September, the spending departments

begin to prepare estimates of their expenditures for the coming fiscal year beginning July 1st. Each bureau, commission, board or other executive organization sets down the various items which its financial officer approves as a scheme of expenditure. There is no central executive authority to revise or criticise these demands. Each department and the subdivisions thereof estimate for themselves. The Treasury is not consulted as to the advisability of the demands of new expenditures.

These various bureaus make their estimates on the basis of what they think they should have. Each one has a financial policy of its own and hopes that it will gain favor with the Congressional committee into whose hands its estimates fall. But each one knows the attitude of Congress toward the estimates. They know that the committees take great liberties with the estimates, ignoring, increasing, decreasing and rewriting them as they see fit. This has an effect on the motives of the departmental officials. They frequently ask for more than they need so as to fortify themselves against the inevitable reductions by the committees. In other words, the departmental estimates are not a bona fide presentation of actual and imperative needs such as are the estimates under the budget system. In this early stage there is a sort of financial anarchy.

The law requires that the departments transmit their estimates to the Treasury and the Secretary

of the Treasury is required to classify them and transmit them to the House of Representatives at the opening of the session early in December. The duty of the Secretary of the Treasury as regards the estimates is purely clerical. He is not a minister of finance. He has nothing to say to the departments about their proposed expenditures. He cannot criticise, reduce or in any way alter or amend any of the items nor does he officially upon any definite and consecutive plan make any suggestions to Congress as to the extravagance of any of the proposals or as to the danger of too deep an inroad into the revenues of the government. The Treasury has here a mechanical function only. It brings the departmental estimates together, and arranges them in logical order, and has them printed and transmitted to Congress. They thus go from the executive to the legislative branch of the government without revision, without co-ordination of department with department and without co-ordination of proposed expenditure with estimated revenue.

In other words, so far as the executive is concerned there is no financial policy. The President is powerless to act. The Cabinet is equally impotent. They do not meet—as do the Cabinets where the budget systems is in vogue—and agree on a total expenditure for each department so that the grand total will represent a harmonious ideal for the public service according to the policy of the party in power.

Two other sources of information go to Congress to aid in drafting of appropriation measures. The one, the estimates from the army engineers relating to projects for the improvement of rivers and harbors. They are transmitted in response to resolutions from Congress and do not come through the medium of the Treasury. The other are the judgments of the Court of Claims. This court has no power to enforce its own judgments so they are transmitted to Congress where they form a part of the bill providing appropriations for claims against the government.

Turning now to Congress we face a situation without parallel in the world. Here we cannot speak of a budget, or a budget bill, but of appropriation bills—separate and independent bills drawing on the Treasury. These bills are prepared by about fourteen independent committees of the House and fifteen of the Senate—twenty-nine separate committees, each working independently of each other and of the executive branch of the government. Ten of these House committees and eight Senate committees report out all of the bills carrying appropriations but the other eleven—four in the House and seven in the Senate—report out measures for pensions and public buildings and other things carrying demands on the Treasury which are met by bills from one of the other committees. An additional committee of the House and of the Senate prepares the revenue measures.

Some of these House committees begin the work of preparing their bills in October and some in November, several weeks before Congress meets in those years preceding the biennial short session of Congress. But what is more to be noted this is also several weeks before the Treasury sends in the departmental estimates. Some of the largest appropriation bills are in course of preparation parallel in time to the preparation of the estimates by the departments. A few of the great bills are ready to be reported for debate in the House during the first week of the session. The estimates of the executive departments are submitted to Congress that same week.

How may one explain this extraordinary practice? The explanation may be found in the fact that Congress possesses and exercises the complete financial initiative. What the executive may say as to the needs of the government is said only for the information of Congress. This information may be utilized or ignored since it forms no part of the legislative program. In the United States—but nowhere else—the legislative branch of the government actually prepares in detail every financial measure introduced—every item of expenditure in a total of nearly two billion dollars. How is it possible for them to do this? How do they know enough of all of the intricacies and technicalities of departmental operations to be able to say exactly what and how they shall spend all of this money? An odd system of procedure in

federal finance has grown up in America which throws some light on these questions.

Each committee having charge of one of the annual appropriation bills takes as the basis for the new bill the existing appropriation act for the department under consideration. In other words, the needs of the current are taken as the norm for the needs of the coming year. This procedure is fraught with two dangers; one that the renewal of certain items in the expenditures for the coming year may be extravagant because unnecessary, and the other that loss of efficiency may occur by the failure to include new items for new services to meet changed conditions. These dangers are expressly guarded against in the British system where the estimates of the departments are examined by the Treasury with a view of ascertaining the actual needs for the coming year. The departmental officials are warned against taking the existing appropriations as a basis for the estimates.

But the most unique feature in the American method of preparation of appropriation bills for the departments is in the point of contact which the committee has with the executive officials. Each committee holds what are called hearings. At a certain stage in the preparation of the bills—it might be called the later preliminary stage, it being supposed that some consideration has been given the measure before the hearings begin—the committee calls before it the officials in the departments who are connected with their financial

operations or are otherwise supposed to be familiar with the departmental needs. The Cabinet officers are not called but the minor permanent officials such as bureau chiefs, secretaries of commissions and so forth. The Cabinet officers may, however, on a large matter of policy, volunteer to appear before the committee.

With the existing appropriation act and the estimates—if the hearings are conducted after the opening of the session—before it, the committee proceeds to submit the official to an oral examination. The initiative in the testimony comes entirely from the committee. The official is there only to answer questions. Sometimes members of the committee are hostile to the witness and the testimony gives evidence of clashes between them and the official. The committee does not necessarily confine itself to the examination of departmental officials. It may call in anybody it chooses. It oftens hears the testimony of former officials, engineers, financiers and others. On the basis of the testimony taken the committee deliberates and reaches the decisions necessary to the drafting of the bill. This is how the committees find out what the departments need.

To take a concrete example, the hearings on the navy bill for the fiscal year 1916–1917, before the House Committee on Naval Affairs, began on January 5th and extended through April 5, 1916. More than sixty witnesses were examined. They

included a number of professional men of the navy of various grades—gunners, engineers, captains, admirals and so forth, several members of Congress, certain manufacturers not connected with the government, and several civilians. The Secretary of the Navy also appeared before the Committee. The printed testimony covered 3860 octavo pages. On the basis of these hearings, the estimates of the Navy Department, the existing appropriation act and the general but undefined opinion of the party in power in the House, the Committee proceeded to draft the appropriation bill for the navy. In doing this it was compelled to reach decisions on the relative efficiency of various kinds of guns and projectiles, of battleships, battle cruisers, submarines, and every conceivable question of naval engineering and architecture. The bill was ready by May 24th.

The full Committee was composed of twenty-one members, thirteen Democrats and eight Republicans. The Democrats drew up the bill. Their occupations previous to their election to Congress were as follows: seven lawyers, two real estate men, one banker, one newspaper man, one state office holder and one who had been a worker in structural iron. The bill they reported out was different in policy from that recommended by the Navy Department through the General Board and the Secretary of the Navy and less in amount.

But the preparation of the Navy bill—as with

all appropriations bills—had to go through four more stages before it was in the form in which it finally became a law. On the floor of the House it was further changed. Then it went to the Senate Committee on Naval Affairs where hearings were conducted in just the same manner as by the House Committee. The Senate Committee reported out a bill radically different in many respects from that passed by the House and it carried much larger appropriations. On the floor of the Senate further changes were made. The bill as finally adopted—and this is true also of all appropriation bills—was the result of an adjustment of the differences between the two houses in a conference committee composed of three members from each house.

In speaking of American methods in public finance it is therefore not possible to draw a line of distinction between the preparatory and the ratification or legislative stage as to the various measures. They completely overlap. The preparation and the ratification end together with the adoption of the conference report.

The internal organization of these committees is very simple. The routine work is done by a clerk and a few clerical assistants. The clerks are not experts in the departmental affairs with which their respective committees deal, nor are they experts in public finance generally. They are usually chosen because they happen to be the clerk of the member who is made chairman of the

committee. Some of them are women. The salaries of the clerks are comparatively small.

The members of the committees are not chosen for the reason that they have any knowledge of the subjects for which they are to appropriate money. They are chosen by virtue of the lengths of their term of service in Congress. There is a regular system of promotion in rank on the committees on this basis with a certain range of choice as to committees left to the member.

There were two hundred and seventy-three members of the House upon the organization of the Sixty-fourth Congress assigned to committees having the power either to draft bills making appropriations out of the Treasury or to draft bills proposing expenditures by items for which the actual appropriation is provided for by some other committee. One hundred and fifty-eight of these were Democrats, and one hundred and four Republicans and four independent. Their occupations or professions at the time of their election to Congress were as follows: Democrats: ninety-eight lawyers, seventeen business men, seven newspaper men, six farmers, one physician and thirty-three unclassified; Republicans: fifty-seven lawyers, twenty-nine business men, three farmers, two newspaper men and seventeen unclassified. Of the whole number only two had at one time been connected with an executive department of the Government, one a Democrat and one a Republican.

In the Senate the situation is similar but the number of members on the committees is much smaller. Altogether the financial measures are prepared each year by about three hundred men on twenty-nine distinct and independent committees. This includes determining the army and navy program and policy, fixing the limits to the entire scope of the executive departments, and deciding what, if any, new work will be undertaken by the government.

In addition to the ordinary annual appropriation bills for the support of the government certain other money bills may be brought in by some of these committees; for example, the rivers and harbors bill for the improvement of internal waterways and harbors, the public buildings bill which includes new post-offices and other federal buildings, an occasional omnibus claims bill bringing together a large number of private claims against the government, an omnibus fish hatcheries bill establishing fish hatcheries here and there and an omnibus pensions bill based chiefly on service in the Civil War.

It has been said, in defense of the committee system, that a member may by long service on a committee, and in Congress, gain the experience necessary to the proper drafting of an appropriation bill for a given department. This is entitled to some weight but it can only be true of a few members of the committee. And no amount of legislative experience can give the member that

expert knowledge of departmental operations which is necessary to an understanding of the real financial needs of the executive. This he could gain only by being connected with the department itself and devoting his whole time to its work.

The Secretary of the Treasury is not called into consultation by any of the committees by way of finding out what effect any bill will have on the Treasury or on the public service generally. In fact the Treasury is not so organized as to know very much about the latter. It has no responsibility in this direction nor are any of the cabinet officers responsible for the financial policy of their own departments. The executive government, having no financial policy and no power to organize and direct its own operations has no need to acquire the knowledge necessary to gaining a unified and consistent view of the public service.

President Taft took a very vital interest in this subject and secured from Congress an appropriation for a commission—the President's Commission on Economy and Efficiency—to bring together the necessary facts concerning the executive departments upon which a policy could be based. This commission was strongly constituted. Its preliminary report revealed a state of facts which seemed to call for imperative reforms in the public service. It contained an analysis of the public service and a number of recommendations designed to put the business of the government

on an efficient basis. The report was transmitted to Congress but failed to secure any consideration and was not printed.

The executive, being without responsibility or duty in the matter of preparing a financial program, has necessarily no financial policy. But, under the present procedure, neither is it possible for Congress to have a financial policy. The twelve committees of the House do not consult with each other in the preparation of the bills. One committee may begin work in October and another in January. One committee may be through with its work before another begins. The appropriations for one department may have passed both houses and become a law while those for other departments have not yet been prepared. What is true of the House is equally true of the Senate. The sixteen committees there pursue their work independently of each other. Since the committees of the two houses do not respectively co-ordinate their work it is needless to say that the House and Senate committees have no joint conferences.

Such rudiment of a financial policy as there may be is found in the so-called party caucus. But here again we have a House caucus and a Senate caucus but no joint caucus of both Houses. And, furthermore, they do not pass on all financial measures nor do they at any time consider the national expenditure as a whole.

The impossibility of a legislative financial

policy is further seen in the fact that no one knows exactly what items an appropriation act will finally carry until after it has passed both houses and has been signed by the President. It is, therefore, quite clear that the preparation of bills drawing money out of the Treasury and the preparation of bills providing revenue to meet the expenditure are carried on without any financial policy at all, either executive or legislative.

CHAPTER VII

RATIFICATION OF FINANCIAL MEASURES BY CONGRESS

In general the business of Congress is conducted through an elaborate system of standing committees. Of these there are fifty-five, in the House and seventy-five in the Senate, twenty-nine of which, as has been shown, have jurisdiction over bills drawing money out of the Treasury. Although the Constitution theoretically places in the hands of the House of Representatives the chief responsibility and power as regards revenue and expenditure, in practice the two houses are co-equal in these respects with the balance of power in favor of the Senate.

A brief sketch of the House committees having jurisdiction over the preparation of financial measures will show the striking development toward decentralization during recent years. The evolution in the Senate has been similar to that of the House but resulting in an even greater division of responsibility.

The Committee on Ways and Means is the oldest and still the most powerful of the committees of the House. Its chairman is floor leader of the House and ranks next to the Speaker. It was established in 1789 as a select committee

and was made a standing committee in 1802. From this date to 1865 it had jurisdiction over the entire field of public finance including banking and currency. It prepared all of the measures for the support of the executive departments on the one hand and on the other prepared the revenue bill to meet these expenditures. The whole financial program—at least in this stage of its preparation—was in the hands of one committee. In 1865 the Appropriations Committee was created and took over all of the bills relating to appropriations, and at the same time certain other bills were given to the Committee on Banking and Currency. The Ways and Means Committee now has jurisdiction over all bills relating to revenues and the bonded debt.

The Committee on Appropriations was established in 1865 at which time it was given jurisdiction over all measures appropriating money out of the public Treasury. From 1865 to 1883 there were thus only two committees with powers over finance, the one proposing expenditures and the other proposing revenues.

In 1883 the Committee on Rivers and Harbors was created. It took over the appropriation bill for internal waterways and harbor improvements. This bill, not being classified as a general appropriation bill is not subject to the restriction in regard to substantive legislation being contained in it. The Committee may report in its bill any measures over which it has jurisdiction.

In 1885, through a controversy between the chairman of the Committee on Appropriations and certain other members of the House, the appropriation bills were scattered amongst several committees. That situation has remained practically unchanged to the present time. The Committee on Appropriations now has jurisdiction over the preparation of the following six bills for the support of the Government: (1) the legislative, executive and judicial bill providing for the salaries and certain other expenditures of the departments; (2) the sundry civil expenses bill; (3) the fortifications and coast defense bill; (4) the District of Columbia bill; (5) the pensions bill; and, (6), all bills providing for deficiencies in any of the government departments. These latter are always necessary because the departments do not get what they need in the first place and also because certain unforeseen circumstances may arise necessitating increased expenditures.

The Committee on Appropriations has no power to report legislation relating to the subjects for which it provides appropriations. The legislative measures are reported by the other committees. Thus, as a matter of fact, the provisions making necessary many of the expenditures for fortifications and coast defenses, for the District of Columbia, and for pensions are in the hands of other committees.

The Committee on Agriculture has jurisdiction over the bill making appropriations for the work

of the Department of Agriculture. The committee has also the jurisdiction over any measures imposing a direct tax on oleomargarine. The authority over this item of revenue is the only exception to the complete jurisdiction of the Committee on Ways and Means over revenue.

The Committee on Foreign Affairs has jurisdiction over the general appropriation bill for the Diplomatic and Consular Service and any other expenditures growing out of international relations.

The Committee on Military Affairs reports out two general appropriation bills, one for the maintenance of the army and the other for the support of the Military Academy. The appropriations for the salaries and expenses of the War Department at Washington are under the jurisdiction of the Appropriations Committee.

The Committee on Naval Affairs has jurisdiction over the general navy appropriation bill and any other appropriations for the Navy establishment. The items for the salaries and expenses of the civil establishment of the Navy Department at Washington, like those of the War Department, are under the jurisdiction of the Appropriations Committee.

The Committee on the Post-Offices and Post-Roads has jurisdiction over the appropriations for the postal service in all of its aspects and relations.

The Committee on Indian Affairs reports out the general appropriation bill making provision

for the support of the Government's activities relating to the care, education, and management of the Indians.

Altogether there are eight committees of the House having charge of the fourteen general annual appropriation bills for the support of the Government. In addition, the Committee on Claims has jurisdiction of all private and domestic claims against the government, other than war claims and reports out an appropriation bill whenever the situation demands it; and the Committee on War Claims reports out appropriation bills on claims arising from any war in which the United States has been engaged.

There are four other House committees which, although they do not have jurisdiction over appropriation bills, nevertheless report out measures making it mandatory on some other committee, having the proper authority, to provide the necessary funds. These are (1) the Committee on Invalid Pensions which reports general and special bills authorizing pensions growing out of the Civil War only; (2) the Committee on Pensions which exercises the same functions for all other wars of the United States; (3) the Committee on the District of Columbia which reports out many bills for which appropriations have to be provided; (4) and the Committee on Public Buildings and Grounds which reports out all bills authorizing the purchase of sites and the construction of post-offices, customhouses and federal courthouses in

various parts of the country, and all government buildings in the District of Columbia.

Prior to 1899 in the Senate all general appropriation bills were referred to the Committee on Appropriations. In that year the following appropriation bills were taken away from it and referred to the Committees indicated below: the rivers and harbors bill to the Committee on Commerce; the agricultural bill to the Committee on Agriculture and Forestry; the army and Military Academy bills to the Committee on Military Affairs; the pension bill to the Committee on Pensions; the Indian bill to the Committee on Indian Affairs; the navy bill to the Committee on Naval Affairs; and the Post-Office bill to the Committee on Post-Offices and Post-Roads. In addition to the above the following named committees have functions relative to expenditures similar to the corresponding committees of the House: the Committee on Claims; the Committee on the District of Columbia; and the Committee on Public Buildings and Grounds, which has the power to meet jointly with the House Committee of the same name. The Senate has also a Committee on Private Land Claims; a Committee on Coast Defenses; and a Committee on Revolutionary Claims.

The Senate Committee on Finance corresponds in function to the Committee on Ways and Means in the House in having jurisdiction over revenue measures.

The work of all of these committees goes to make

up the annual appropriations. Yet it must be borne in mind that the line of demarcation between committees having the power to authorize expenditures cannot be too closely drawn. A number of other standing committees of both houses may report bills which make demands upon the Treasury which must be met by appropriations reported out from some other committee. Projects and reforms to this effect may come from such committees as the Judiciary, Banking and Currency, Interstate and Foreign Commerce, Merchant Marine, and Fisheries, Public Lands, Territories, Insular Affairs, Mines and Mining, Education, Labor, and Irrigation, in the House and from similar and additional committees in the Senate.

The general procedure in the House is fairly simple. The revenue and appropriation bills—about fifteen in number—are given preference over other bills. When one is reported out by a committee it is considered by the House sitting as a Committee of the Whole. A certain amount of time is allotted for general debate after which the bill is taken up for amendment under the five minute rule, that is five minutes are allowed to any member offering an amendment according to a scheme of apportionment of time between the parties. A feature unique in budgetary procedure is found in the right of each private member to offer amendments to money bills. Thousands of these amendments are sometimes proposed during

a session, some to decrease and others to increase the items in the bills. The same right of amendment by individual senators is found in the Senate within even less restriction. If the member can gain enough support for his amendment it will be adopted. This is sometimes done by a temporary break in the party lines to carry out some popular scheme, thus taking the bill for the moment entirely out of the hands of the committee which drafted it. Such a derangement in the plans of the committee has no effect on the status of the parties. Debate proceeds as before.

On some of the great items of expenditure involving questions of policy, and on revenue bills in general, the action that the House will take is determined by a secret party caucus. Such was the case with the Underwood Tariff bill. After the Ways and Means Committee had completed its draft of the bill it was submitted to the Democratic caucus. Here it was taken up section by section and fully debated and voted on until the caucus had approved the entire measure. The caucus made such amendments as it saw fit. All of the members of the party are entitled to seats in the caucus and are bound by its action. When the bill thus came to the floor of the House it was passed without change except such as were offered by the member having charge of it.

In like manner the shipbuilding program for the navy may be made a strict party measure and forced through as such. But such is not the rule

with the ordinary appropriation bills. The parties do not have financial policies.

The party in power controls the allotment of time for debate—usually a certain number of hours to each bill—so much for general debate and so much for special debate under the five-minute rule. This time is apportioned between the parties. Each section of the bill is voted on separately and after expiration of the time, upon motion of the member in charge of the bill, all debate is closed and the final vote taken on the bill as a whole. The action of the Committee of the Whole is formally approved by the House and the bill sent on to the Senate, where it is referred to the appropriate Senate committee.

After a period of investigation and hearings before the Senate committee, similar in procedure to that of the House committee the bill is ready for report to the Senate. There is a Senate party caucus, similar to that of the House, which may take action on revenue bills or portions of appropriation bills. The members of the Senate being fewer in number and having the opportunity of more independent action do not ordinarily regard themselves so literally bound by caucus action as do the members of the House. In one case it is a conference of about fifty men, in the other it may be more than three hundred.

The Senate committees ordinarily add numerous amendments to the House appropriation bills by way of increasing expenditures. Theoretically

the power of the Senate to amend appropriation measures is limited by certain technical rules. In practice the Senate amends as it pleases, adding millions of dollars to the House bills.

A bill, upon being reported by the committee, is considered by the Senate in Committee of the Whole. There is no restriction on debate, or clôture, at any time in the Senate except by unanimous consent.[1] Each senator may offer amendments to appropriation bills with less restriction than is applied to members of the House. After the bill is reported to the Senate it is again subject to amendments from private members. Upon final approval it goes to a conference committee composed of three members from each house.

In the conference the differences between the two houses are threshed out. The Senate Conferees usually insist upon their increases with such persistence that the House Conferees accede to the greater number of them. The conferees, having power only to recommend, report the agreements and disagreements to their respective houses from time to time and receive further instructions. The portions agreed upon are voted on as they are reported so that the process of elimination goes on until a final agreement is reached. The history of appropriation bills within recent years amply demonstrates that the Senate is the dominant power of control over the public

[1] See footnote, p. 96.

purse and not the House of Representatives as the Constitution originally intended.

A sketch of the legislative history of the naval bill of the first session of the Sixty-fourth Congress may serve to illustrate the method above described. After hearings and study extending over a period of nearly six months the House Committee on Naval Affairs reported out the naval bill on May 24, 1916. It carried a total of approximately $241,500,000. The bill was based upon the judgment of the committee as to the policy of the building program—as to the kind of ships, their number, and the extent of time to be covered in their building. The recommendations of the Navy Department as to these were in several important respects overruled.

The bill was debated in the House one week and was passed by a vote of 358 to 4 on June 2d. At this stage it carried a total of $270,000,000 in round numbers, a net increase by amendment on the floor of the House of $28,500,000. Among the amendments increasing the bill the following may be mentioned: An increase in the number of submarines from twenty to fifty, adding $18,750,000; an increase of $1,500,000 in the item for aëronautics; and the adding of an entirely new item of $11,000,000 for the construction of a government armor plate plant. Other amendments deducted nearly $2,000,000 from the bill. The amendments were made in the Committee of the Whole without the consent of the Naval Affairs Committee.

The bill was received in the Senate and referred to the Senate Committee on Naval Affairs on June 8th. After about three weeks' consideration the committee reported the bill back to the Senate on June 30th with amendments. It carried a total of $315,837,000, an increase of about $45,000,000 over the bill as it passed the House or about $72,500,000 more than the bill as reported by the House Committee. The bill on the whole was almost entirely rewritten, the most radical change being in the building program, the Senate Committee amendments causing the bill more nearly to conform to the recommendations of the Navy Department. This program was extended over three years instead of one as provided in the bill in the House. The total expenditure authorized for the three years was $804,000,000.

The bill reached a vote in the Senate on July 21st and was passed carrying a total of $315,827,000, approximately the same as reported from the Committee. As it passed the House it contained 106 pages but as rewritten by the Senate it contained 191 pages. On July 27, it was sent to conference. The many Senate amendments left to the conference committee a rather difficult task. As usual, however, the Senate insisted on its amendments and the House after protest acceded to them. On August 18th the conference committee had completed its work which was approved by both houses. The bill as thus finally adopted

and signed by the President carried a total of approximately $315,000,000.

A comparison with the English system shows a striking difference in method. There the naval policy each year is settled by conferences between the Council for Imperial Defense, the Board of the Admiralty and the party leaders who sit in the Cabinet. An agreement is reached and the estimates prepared. Parliament reviews the policy, debates and criticizes, but makes no changes in the estimates. The executive takes the responsibility to Parliament for both policy and administration.

The fourteen general appropriation bills are strung out all through the session. At the session above mentioned the first bill to be reported to the House was the Indian bill on January 29th and the second was the Post-Office bill on January 31st. Both of these bills had failed of passage altogether at the short session the year before and the old appropriations had to be continued by a joint resolution. On February 24th the Rivers and Harbors and the Legislative, Executive and Judicial bills were reported. Two more appropriation bills were reported in March, one in April, four in May, one in June, and two in August, one of these being the army bill, reported August 18th, making appropriations for the fiscal year beginning July 1st.

They reached the President after passage by both houses, and became laws in the following or-

der: Legislative, Executive and Judicial, May 10th; Indian, May 18th; Pensions, June 30th; Sundry Civil, July 1st; Diplomatic and Consular, July 1st; Fortifications, July 6th; Rivers and Harbors, July 27th; Post Office, July 28th; Agricultural, August 9th; Military Academy, August 11th; Naval, August 29th; Army, August 29th; District of Columbia, September 1st; General Deficiency, September 8th.

In addition to these there were five urgent deficiency bills and two resolutions extending the appropriations of certain departments until the bills providing for their support could be passed. The total annual appropriations for the year 1916–17 were about $1,626,000,000. Of this amount $84,290,000 were appropriated by miscellaneous acts including a number of private acts for the relief of individuals. This total could only be arrived at after the close of the session by summing up the various bills. In fact Congress proceeds with these bills all through the session without securing any complete view of the total annual expenditure involved.

It has not been the practice in America to make an annual adjustment of revenue to expenditure. The revenue laws are permanent and have often produced more revenue than the government needed. The system of indirect taxation through a high tariff on imported commodities of general use sometimes embarrassed the government with a large surplus. Within the last few years, due to

various causes, the annual appropriations have exceeded the anticipated revenues so that an annual or at least a more frequent revenue bill to provide for additional taxation has become necessary.

In view of the fact that it is impossible to estimate the needed revenues until near the close of the session on account of the delay and uncertainty as to the appropriation bills, the revenue bill must be brought in rather late. For the first session of the Sixty-fourth Congress the omnibus revenue bill was introduced into the House on July 1st. It was intended to raise $210,000,000 to supplement the permanent revenues, or, in other words, to meet an apparent deficit for the fiscal year ending June 30, 1917. It had already been drafted by the Ways and Means Committee after several months of labor and had been approved by the House Democratic Caucus. It was formally referred to the Ways and Means Committee and favorably reported out without change on July 5th. It was passed by the House the next day after a brief debate. It provided for taxation on incomes, inheritances, munition manufacturers, fermented liquors and wines and certain other products and occupations. It also placed a tariff on dyestuffs and provided for a tariff commission.

Certain amendments were forced on the floor of the House, chief among which were the following: Striking out the provision that no former member of Congress should be appointed to the tariff

commission; the elimination of the provision laying a tax of one dollar per thousand capital on bankers; reducing the salaries of the members of the tariff commission from $10,000 to $7,500, and the secretary from $6,000 to $5,000, and striking out the item of $300,000 as the permanent annual appropriation for the support of the commission.

The bill then went to the Senate and was referred to the Finance Committee. On August 11th the Finance Committee referred it to the Democratic Caucus of the Senate with recommendations for certain amendments. On August 14th the Senate Caucus reached an agreement on the bill having increased certain items, decreased some, and added several new provisions. Among the changes was the restoration of the item for $10,000 as the salary of each member of the tariff commission; changing the munitions tax from gross to net profits, with an estimated loss of $5,000,000 from the House provision; the elimination of the tax on telephone and telegraph messages, and freight and express receipts; an increase on the wine tax; and the addition of a provision for a corporation stock license tax. On August 31st an amendment was passed by the Senate providing against the "dumping" of foreign made goods into the American market. The bill was passed in the Senate on September 5th, sent to conference and ratified by both houses September 7th. Congress adjourned the next day.

The Sixty-fourth Congress had met on the first

Monday in December, 1915. Its financial program was not complete either in conception or in consummation until September 7, 1916, the next to the last day of the session. This is typical. It is inherent in our method of procedure. But it is found nowhere else in the world. In all other countries the preparation of the budget is complete, or practically so, when the legislature meets. It is a program and a policy in reality. At every point in the legislative stage everybody knows just what is going on. The total appropriation is there and the balance sheet is there all the time, showing at one glance how much money must be taken out of the people's pockets and how it is to be taken out and for what it will be spent. That is the budget idea. The scheme of finance is never lost sight of at any of its stages.

CHAPTER VIII

SPENDING, AUDIT, AND CONTROL IN THE UNITED STATES

CONGRESSIONAL control is supreme over the preparation and ratification of the annual appropriation measures for the support of the government. Here it stops. Executive control is equally supreme over the execution and audit of these measures.

The money appropriated is made available to the Treasury. Immediately upon the passage of a bill the Comptroller of the Treasury notifies the proper official and opens up a credit on his books with the department or service. All payments of money to the departments must be made by warrants signed by the Secretary of the Treasury and countersigned by the Comptroller of the Treasury and delivered to the Treasurer of the United States who is the disbursing officer. They are drawn upon requisitions from the departments. The disbursing officers in the departments pay out the money to individuals for the services either by check or in cash.

The revenues are collected by treasury officials, the Secretary of the Treasury nominally exercising personal supervision over the customs duties and the Commissioner of Internal Revenue over the

excise and other internal taxes. The money is collected and placed to the credit of the Treasury in a member bank of the Federal Reserve System, or in one of the sub-treasuries. Under the independent treasury system the United States handled its own funds. There are nine sub-treasuries, one each at the following places: Baltimore, Boston, Chicago, Cincinnati, New Orleans, New York, Philadelphia, St. Louis, and San Francisco. In the Federal Reserve Act, Congress has asked the Secretary of the Treasury for a report as to the advisability of abolishing all of these sub-treasuries and transferring their functions to the Federal Reserve System.

When a deposit has been made a duplicate certificate of it is sent to the Secretary of the Treasury who issues a warrant covering the money into the Treasury. This is done through the Treasurer who is both the receiving and the disbursing officer of the Treasury. The Register of the Treasury is bookkeeper for the cash account or receipts as the Comptroller of the Treasury is bookkeeper for the appropriations or expenditures.

The accounts of the receipts and disbursements of the government are audited by the following six auditors: (1) Auditor for the Treasury Department and all bureaus and offices thereunder; (2) Auditor for the War Department and all business under it including rivers and harbors; (3) Auditor for the Navy Department; (4) Auditor for the Interior Department; (5) Auditor for the

Post-Office Department; and (6) Auditor for the State Department and all other branches of the public service not included in the above.

The accounts and the balances arising thereon are certified to the Division of Bookkeeping and Warrants of the Treasury Department, except those relating to the postal revenues and expenditures which are certified to the Postmaster General. The decisions of the auditors are final except that an appeal lies to the Comptroller of the Treasury within one year. The Comptroller of the Treasury is thus at the head of the accounting system although the auditors perform their duties of audit independently of his supervision. They are charged under his direction with the duty of recovering any debts due to the United States certified by them.

The decisions of the Comptroller of the Treasury are of a *quasi*-judicial nature. They are binding upon all branches of the executive government. They cannot be reversed by the Secretary of the Treasury or by the President. If a claimant is not satisfied with the decision of the Comptroller he can have recourse to the Court of Claims, the court provided by the Government in which suits against itself may be tried. This court is entirely independent of the executive branch of the government.

The Comptroller of the Treasury is an officer of the executive government being an official of the Treasury Department. His is a political appoint-

ment and he usually goes out of office with the change of administrations. Although the President cannot alter his decisions, he can remove him from office. He receives a salary of $6,000 per annum. The auditors are likewise officials of the executive government and responsible to it for their actions. They are appointed by the President and are likewise subject to removal upon the change of parties. All of the present auditors except one were appointed during the present administration.

It is the duty of the Secretary of the Treasury to lay before Congress at the beginning of each regular session a statement showing the receipts and expenditures of the government for the last preceding fiscal year. The receipts are indicated by ports, districts and states and the disbursements are shown by each separate head of the appropriation act. Congress, however, takes no action on this report.

The most important phase of legislative control over expenditures in other governments occurs after the money is spent. The accounts are audited and reported upon by either an agency of the legislature or by some independent organization outside of the executive branch of the government. Irregularities in the accounts are subject to action by the legislature, which retains and exercises the power of sanction. Should the legislature refuse to sanction a payment the officer making it would be held responsible.

Theoretically Congress has always clung to this idea but at no time has an adequate organization been made effective by way of putting it into practice. In 1802, at the time the Ways and Means Committee was made a standing committee, in addition to its jurisdiction over legislation for both revenue and appropriations, it was also given the duty of reporting whether the departments spent the money according to law, whether the departments were being conducted with economy, and on the accountability of their officers. In 1814 these additional duties were taken from the Ways and Means Committee and given to a separate committee on public expenditure.

Later on as the departments began to increase in number and in size a separate and distinct committee was appointed for each. The list has been added to from time to time as new departments have been created. There are now nine of these standing committees, one for each of the following named departments: the Department of State; the Treasury Department; the War Department; the Navy Department; the Post-Office Department; the Interior Department; the Department of Justice; the Department of Agriculture; the Department of Commerce; and the Department of Labor. They are entitled, "Committee on Expenditures" in the given department.

Their jurisdiction as given in the Manual of Rules of the House of Representatives is as follows:

"The examination of the Accounts and expenditures of the several departments of the Government and the manner of keeping the same; the economy, justness, and correctness of such expenditures; their conformity with appropriation laws; the proper application of public moneys, the security of the government against unjust and extravagant demands; retrenchment; the enforcement of the payment of moneys due to the United States; the economy and accountability of public officers; the abolishment of useless offices; the reduction or increase of the pay of officers, shall all be subjects within the jurisdiction of the nine standing committees on the public expenditures in the several departments."

The above program is not mandatory on the committees. These subjects are within their jurisdiction only. As a matter of practice they usually do nothing more than provide the majority party with additional chairmanships with the privileges and emoluments that the chairmen have. These committees sometimes come into great prominence by making investigations. The occasion for this is usually the change of parties.

A unique illustration of the work of these committees was seen when the Democratic Party won the House in the "off year" election of 1910. They took their seats and organized the House, in 1911. The Republican Party controlled the Senate and Mr. Taft was President. These committees on departmental expenditures immediately began a wholesale investigation of some of the depart-

ments. The executive branch of the government had been under the control of the Republican Party for about fifteen years, consequently these investigations were made with political motives, the real purpose being not to make a *bona fide* investigation into departmental economy and efficiency with a view to permanent reforms but to unearth scandals and corruption in the high places so that the facts of the investigation might be used to overturn the Republican Party in the presidential campaign of the coming year. These were political investigations. Large numbers of officials and others were examined. Much that was brought out was along the line of the differences in policy of the two parties. The evidence had little or nothing to do with the annual accounts as such. The work done by the Committee of Public Accounts of the House of Commons, while pursuing a similar method, is of an entirely different character.

So far as Congress is concerned the work of accounting ends with the duties of the auditors and the Comptroller of the Treasury. In any case it would be impossible to gain a unified and complete view of the accounts from nine different committees working independently of each other.

This ends the story of how we manage the support of the government. Congress, through an elaborate system of independent standing committees prepares in detail every item of the appropriation measures. In doing this the com-

mittees may in some cases follow the estimates made by the departments or they may ignore them entirely. They may even proceed to draft the bill before the estimates are prepared. The preparatory stage of a given bill—as the term "preparation of the budget" is ordinarily understood—is not complete until it is passed by both houses. It is subject to change on the floor of the House, in the Senate committee, on the floor of the Senate and in the joint conference committee of the two houses.

The money is spent and the accounts audited under the supervision of the Treasury Department. Annual reports are made to Congress on the accounts but no action is taken on them. Congress therefore has complete active control over the first two stages of the budget—the preparation and the ratification—and the Treasury over the last two—the expenditure and the execution and audit. In all other countries the executive controls the preparation and the execution while the legislature controls the ratification and the audit.

CHAPTER IX

CRITICISMS ON THE AMERICAN SYSTEM

THE method of dealing with public moneys in the United States has never at any time proven satisfactory. At the very beginning of the government there was a strong conflict between Hamilton, the Secretary of the Treasury, and Congress. From that time down to the present the criticisms have increased in intensity and in volume as the trend of our methods have been toward greater inefficiency and the scattering of responsibility. To-day there is not a student of affairs nor a man in public life who would venture to defend the haphazard way in which the government is provided with funds for its running expenses.

At the very time that we launched our government great reforms in finance were under way in England. Our ideas of public finance were then English ideas and we transplanted them into our system of government without taking any notice of the reforms. Within the past few decades England, France, Germany, Italy, Japan, Switzerland and several other countries have completely re-examined and radically reformed their systems of finance. The long and historic experience of England has been of great and controlling influence in the existing systems of these other na-

tions. We alone of all the great countries have proceeded in apparent blindness to the experience of the civilized world. We have consciously retrograded from decade to decade. We have made radical changes but they have been for the worse. We are now handling the vast sum necessary to run the government in a way that is amazing to the foreigner and preposterous to ourselves. Professor Ford closes his book of lectures on the "Cost of our National Government" with these words:

"Compared with the exact and minute system of English budget control our methods seem like the ignorant and disorderly practices of barbarians."

Some of these weaknesses may be summarized and labelled. There is one which permeates the whole procedure from beginning to end and that is lack of unity. It is impossible to get a complete view of our annual finances at any stage. At no time prior to the annual report of the Secretary of the Treasury, five months after the money has been entirely spent and the accounts audited and closed, can any one see at one time and in one place a balance sheet showing all of the appropriations and all of the revenues.[1] Whereas the

[1] The clerks of the Appropriations Committees of the House and of the Senate are required by law to prepare jointly a compilation of all of the appropriation acts each year. This work is done after the close of the session and is published in the form of a bound volume.

total amount of money appropriated can be estimated at the close of the session, it nevertheless takes the experts in the Treasury Department several weeks to figure out the total expenditures for each of the executive departments. The spectacle is not unknown of a member of Congress—even of the Appropriations Committee—seeking information after Congress has adjourned as to how much money was appropriated for certain departments.

In the preparation of financial measures there is complete lack of unity and cohesion. There is no financial policy on which to base a program. The estimates transmitted to Congress through the office of the Secretary of the Treasury are made by a large number of independent bureaus, offices, commissions and departments each having in view only its own needs. There is no executive authority in the President or otherwise to co-ordinate or revise them by way of reducing them to a business program for which the executive could be held responsible. This undigested mass of requests for money—now more than a thousand printed pages—goes to Congress to form, theoretically, the basis for the appropriation acts.

The lack of unity in the method of legislation is still more striking. A number of committees, independent of each other, independent of the corresponding committee in the other house of Congress, independent of the revenue committee, and independent of the executive, draft the bills from

time to time. Freedom of amendment is allowed on the floors of each house. An appropriation bill may be radically and fundamentally changed after the House committee having charge of it has spent months in its preparation. Not only therefore is there lack of unity in the finances as a whole but also in the individual appropriation bills. What Congress has appropriated in any given year can only be determined by a careful collection of all the appropriation acts and by summing up the various items therein after the close of the session. These acts are entered on the statute books as they are enacted, just as other laws. They are therefore scattered all through the volume of the Statutes at Large for that year, sandwiched between the other laws of a general nature. Here also is there lack of unity. There is no summary of these acts and a person without special training would have extreme difficulty in getting a complete view of the aggregate appropriations. The totals for a given department do not appear in the act itself.

The audit of the accounts after the money is spent is done by six independent auditors. The Comptroller of the Treasury does not supervise their work but reviews only those points which are called into question. Neither in the preparation, nor in the control is there either unity of purpose or unity of form.

Under this system it is not possible to have what is known as balance in the budget. That is to say

it is not possible to balance the needs of one department with those of another so that the work of the Government would go forward according to a consistent plan of development. Likewise a lack of equilibrium between the expenditure and the revenue sides prevents the balancing of estimated revenue with estimated expenditure. When the government itself has no idea what it is going to spend until after the money has been appropriated it is futile to attempt a forecast of what demands will be made on the people by way of taxation.

Nobody in particular is responsible for the annual finances. Responsibility is scattered over the entire range of governmental organization and broken up into a number of detached sections. The Departments are not responsible to the Treasury or the President for their estimates, the committees of the two houses are not responsible to any central organization and the two houses themselves are responsible to the people only by localities. There has been a shifting of the blame for our finances from the executives to Congress, from the House to the Senate, from the committees to the floors of the two houses, from Congress to the executive and even from Congress to the people. Thus is the idea of responsibility reduced to an absurdity.

Public finance is one of the most vital concerns of a nation and the history of the struggles for democratic government have centered around the

control over the purse. It is a most remarkable commentary to find these abuses in a nation professing the purest democracy. The people as a whole are effectively excluded from an adequate knowledge of how the government is supported and they are given no opportunity to criticise any branch of the government in advance of action in these matters. In other countries the complete scheme of annual finance is made public at the time it is laid before the legislature. It is given publicity by the press. It is known all over the country how much the government proposes to spend and how they are going to raise the money. This gives opportunity for criticism and for the public to reach some conclusion on the subject.

The form of the budget is regarded as of great importance, that is to say, the way in which the different items are brought together and arranged. Since we have no budget, reference may be made to the form of our documents relating to finance. As compared with the British parliamentary papers they are distinctly inferior. The printed hearings before our committees having charge of the various bills do not contain an adequate table of contents, a summary of the bill under discussion, a list of the days on which the committee met, a list of the members present each day, a digest of the evidence by witnesses and by subjects, or marginal notes. The questions are not serially numbered. One picks up one of these hearings and finds only a number of pages of testimony in forbidding small

print from which it would be impossible to gain a summary view. How different the hearings before the committees of the House of Commons! The reports for instance of the Public Accounts Committee are in finished form with all of the approved aids to the reader in vogue in modern bookmaking.

Our bills appropriating money and the acts resulting therefrom are also defective in this respect. Nowhere on them does the total amount to be appropriated appear. There is no index of items, no summary or digest, and no explanatory remarks. In other words, a person may take one of these bills and look in vain for a direct simple statement of the demand it will make upon the Treasury. One of the aids in democratic government is here lacking, for the very purpose of form is to make plain to the people how their money is being spent. It would take an accountant to determine what these bills appropriate. A layman could not do it.

If the form in which our annual finances are presented is defective, the procedure is still more so, the most glaring phase of which is the committee system of the two houses whereby the bills are handled by about twenty different committees. Those committees which have jurisdiction over just the one bill for the department for which they legislate are inclined to give the Department even more than it requests. This is due to pressure from localities interested in sharing the benefits of the activities of the Department in question. The

Committee on Agriculture for instance may be thus led to expand the work of the Department beyond the plans of the departmental officials. On the other hand, the Committee on Appropriations, which still has jurisdiction over several important bills, has no power to recommend legislation at all. It usually fights for economy. Consequently in the bills which it prepares the Departments get less than they desire—perhaps less than they need. Chairman Fitzgerald of the House Appropriation Committee in testifying before the Finance Committee of the New York State Constitutional Convention in 1915 (Doc. 15, p. 35) estimated that during the fiscal years 1913–1916 his committee had cut down the departmental estimates by $100,950,000 while the other departmental committees had given their departments $11,515,000 more than they requested. This procedure obviously puts some of the spending departments in more advantageous positions than others.

It is the theory of our government that the House of Representatives should be the stronger of the two houses in the matter of financial legislation, and that the Senate should possess only a limited power of amendment. In the early period of our history this was true. But now the Senate is the predominant house even in money legislation both as to revenue and expenditure. No matter with what care the House prepares a bill it may be rewritten by the Senate. It is the tendency of the Senate to increase all appropria-

tion bills. The House always disagrees to the amendments and asks for a conference but in the conference committee the Senate conferees firmly insist on nearly all of their amendments and the House after protest finally agrees to the Senate increases.

Furthermore, practically unlimited debate is allowed in the Senate while in the House debate is limited according to the plans of the majority party—that is, the party responsible for the legislation. Under this procedure an appropriation bill may be disposed of in the House within a few hours if necessary, but when it reaches the Senate one or two hostile Senators may delay its passage indefinitely, and may even prevent its enactment into law.[1] The entire debate on the estimates in the House of Commons is limited to twenty days with a proviso for three days additional.

Another feature connected with the legislative phase of our public finance, and which has received universal condemnation, is the practice known as "log-rolling." This is due to the fact that the members have a local rather than a national point of view. They are pressed by the local interests back at home. Their re-election may depend upon

[1] At the special session of the Senate in March, 1917 a limited form of clôture was adopted whereby debate may be brought to a close if two thirds of the senators vote in favor of doing so. The rule however allows to each Senator one additional hour of debate after such a vote.

what profit their districts gain from the national government by virtue of their personal efforts. This pressure may be in the form of a desire for post-office buildings, for river or harbor improvement, for road building, for fish hatcheries, for agricultural extension work, for army posts, for aviation fields, or for any of those activities which would lead the government to spend money in the districts. This desire—this local force—is a non-partisan effort. Every member of Congress is affected by it. It is an all pervading influence which permeates our whole system of appropriating money.

"Log-rolling" is the method employed by the members of Congress to meet this situation. A certain number of gentlemen who desire post-office buildings will agree to support each other's projects regardless of the merits of the question. This procedure is also non-partisan. A number of Republicans who want public buildings, or river improvements will agree to support similar projects for certain other Democrats in return for the Democrats' support of their projects. This method of legislation is more manifest in, though not confined to, the Rivers and Harbors bill, the Omnibus Public Buildings bill, the Pension bill and the Agricultural bill. It is the most undemocratic as well as the most vicious of our methods of handling the public purse.

The matter does not stop with the House. It proceeds with even greater ease in the Senate

where the legislative body is small and the individual influence and opportunity are great. Here the House oftens pays another tribute to the powers of the Senate. A member of the House may have failed to secure the insertion of a much desired item in a bill in the House. He then goes to his Senator and gets him to insert that item in the bill. A number of the increases which the Senate habitually makes over the measure as it passed the House are due to this inter-log-rolling. In common parlance these are known as "pork barrel" methods, and the items undesirable from a national point of view are called "pork."

It is no reflection on the personal character of a member that he resorts to these measures. He is there to represent his district or state. He necessarily has a local point of view. There is only one strong and compelling influence brought to bear upon him and that is the vote back home. He is very sensitive to that. But that vote is itself local in view point. Consequently "log-rolling" is not a thing which can be eradicated under our present system of financial procedure.

This procedure necessarily leads to waste and extravagances and a general loosening of the purse strings. We build useless navy yards; establish useless army posts; sink money into creeks and little rivers which have no commercial traffic; scatter annually hundreds of millions of dollars in war pensions more than fifty years after the war is over; and we fill the land with costly public build-

ings in villages and towns so small that the buildings merely serve to render the insignificance of the towns more conspicuous. The following extract from the 1916 annual report of the Secretary of the Treasury on this point is illuminating:

"In the past two decades Congress has authorized and appropriated approximately $180,000,000 for public buildings, and the major part of this great sum has been expended on costly structures in small localities where neither the government business nor the convenience of the people justified their construction, and while the initial cost of these buildings represents a large waste of public funds, this is not the worst of it. The most serious aspect is this—the annual operation and maintenance of these buildings impose on the Treasury a permanent and constantly increasing burden."

They also impose a similar burden upon the administration of the Post-Office Department, which department is not consulted as to the advisability of erecting these buildings. A similar story might be written of the pensions, and of rivers and harbor improvements. No other country in the world could endure these terrific onslaughts on the public treasury, without going forthwith into national bankruptcy. Our apparent complacency in face of such legalized brigandage is due to the fact that our resources are so great that they have never been strained. We have raised our vast sums by indirect taxation and under a high tariff. This method has sometimes

flooded the Treasury with more money than the government was spending. We are just now launching out upon a system of direct taxation on incomes and inheritances but the present rates touch only the rich and the well-to-do. Since the people have not regarded the tariff in the light of an indirect tax and since the majority of them only applaud the taxation of the rich, it seems that the income tax would have to be extended to the smaller salaries before the country as a whole would take an alert interest in the reform of the abuses above enumerated.

Our system of audit of the accounts of the departments is open to serious criticism. The theory upon which it is based is contrary to one of the axioms of accounting. A person cannot audit his own accounts. It is not possible. We have six auditors under partial supervision of the Comptroller of the Treasury. All of them, including the Comptroller are appointed by the executive, are not under the permanent civil service, and are subject to removal by the executive. They are in fact political appointees and change with the change of parties. They are minor officials of the executive government reporting to the Treasury Department. Strictly speaking this is not audit at all. It is a review of the accounts of the executive by his own agents. The fundamental idea of audit is an examination and report on the accounts by some entirely independent person or agency—like the Comptroller

and Auditor-General in England or the Court of Accounts in France.

The purpose of the audit is not to conduct a hostile investigation to gain evidence against criminal abuses. If these exist they will be discovered incidentally. The aim of the audit is to insure regularity and correctness in the accounts; to see that the money is spent only for the exact purposes for which it was appropriated; and to examine the contracts and papers in the spending offices with a view of checking loss or waste in handling the public moneys. The executive branch of the government spends the money. It therefore cannot properly audit and report on its own accounts.

Herein appears another weakness in our finance procedure. Congress exercises no control over the money after it has been appropriated. It gives no systematic consideration or examination to the accounts as reported by the Treasury Department. It has no committees or officers whose duty it is to make this examination. Both the House and the Senate have a number of separate committees with authority to take this action as to respective departments as we have seen but they undertake investigations only at great intervals and have in view other things than the annual accounts. Other nations place great emphasis on the accounts. In Switzerland consideration of them is regarded as the vital stage of budgetary procedure. Also in England the most important connection with and control over the budget which Parliament has, is

through the work of its Committee of Public Accounts. In all countries having the budget system the legislature takes action on the accounts after the money is spent. In no other way can the legislature keep a check on the expenditures by the executive.

With a lack of centralized responsibility on the executive for a financial policy and lack of control over legislation for the departments it is not surprising that the departmental organizations are sometimes illogical and haphazard. Here and there the functions of independent bureaus overlap, resulting in duplication of work, while in other cases unrelated services may sometimes be found under the supervision of a department whose function is at variance to them. For example, the Treasury has jurisdiction over the Coast Guard and the Public Health Service while the Department of Commerce has jurisdiction over the Bureau of Lighthouses and the Coast and Geodetic Survey. The Department of the Interior has jurisdiction over the Bureau of Pensions, that is war pensions, while the Bureau of Insular Affairs—including matters relating to domestic government in the Philippines and Porto Rico—and internal waterways improvements are under the War Department. The departments have grown by accretion. There never has been an attempt at a scientific and systematic reform of departmental organization from the standpoint of related functions. President Taft's Commission on Economy

and Efficiency made such a study and reported on it but no action by Congress followed.

From the standpoint of finance the greatest weakness of the departments is in the frequent change of personnel in the positions of responsibility. The classified civil service does not extend far enough to include the higher administrative officials. As a consequence they go out of office with the change of parties. This prevents these men from becoming departmental experts and takes away from them the highest incentive to attaining the greatest efficiency. Under the British civil service a person may enter it as a career knowing that by intelligent devotion to the public service he may eventually rise by promotion to a salary as high as even $10,000 a year and later be retired with a pension. The departments there have permanent heads who do not lose office with the change of parties. These are the men who are responsible for the administration of the finances. The political heads of the departments are known as such and have only political functions. The high efficiency attained in the financial operations of the British Government is due in a large measure to this body of experienced and trained experts who enter the public service in the lower grades and gradually work up after many years to positions of high administrative responsibility.

This brief mention of some of the more obvious and generally recognized defects in our system of public finance shows in a measure the conditions which the advocates of a budget system must face.

CHAPTER X

THE BUDGET SYSTEM FOR THE UNITED STATES

It has been proposed and advocated by some that under our system of government we should adopt what they call a "legislative budget," that is a budget which is prepared by one central committee of the House. This would be a return to the system in operation in the early days of the government—from 1802 to 1865—when the Committee on Ways and Means prepared and submitted all the measures for expenditure and for revenue. This would be a reform. It would be an improvement over the present practice. It would have the effect of centralizing legislative responsibility and with a provision for the limitation or abolition of the right of a private member to amend and with the co-operation of the Senate it would be possible to put through a unified financial program. This would be a vast improvement over the present scattered and irresponsible procedure, but from the standpoint of the budget system it would be fundamentally defective. Many of the evils of the present practice would still be there. The executive would then as now be shut out from participation until after the budget had been ratified. There would still be that lack of knowledge of the departments on the part of such a committee which now

prevents the most economical and efficient provision for the public service.

The executive government alone has an intimate and expert knowledge of the financial needs of the executive departments. The President as chief executive and party leader also is in a position of responsibility to the people for the policy of his party. This situation makes it not only logical but imperative that the executive branch of the government outline the financial policy and prepare the budget for submission to the legislative branch.

The adoption of the budget system as ordinarily practiced would have a radical and farreaching effect upon our system of legislative procedure and departmental administration. This has been put forward as an objection even by some who are in favor of financial reform. There are others—and the number is increasing—who think the time has come for radical reforms; that the evil to be cured is so deep-seated that nothing short of a removal of the cause will effect a remedy. A system of government is only a means to an end. It is necessarily always changing. The test of time reveals weaknesses that lead to the practice of abuses which tend to defeat the very purposes of government. A change in the system of government is always in order to cure defects that are universally recognized and condemned.

The President of the United States is the only public official who is elected to his place by the

people as a whole. He is put at the head of the executive government by an act of the nation acting in a consciously national capacity. He is responsible directly to the people for his management of the business of the nation. He selects his own cabinet and they hold office at his pleasure. In the executive branch of the government there is therefore a complete and unified responsibility. It can act with singleness of aim and directness of purpose. It can have no impelling motive to action other than the promptings of the national spirit. Under our system of government, public opinion can reach and directly influence only the executive. Congress is never free from the interplay of local influences.

The President is also the leader of his party. Whatever may have been the intention of the framers of the Constitution as to keeping him out of politics, the development has been along the lines of making him the chief political figure in the nation. Each party attempts to nominate its strongest man. The party nominee is consulted as to the platform. The successful party nominee considers himself responsible to the people for redeeming the party pledges on the basis of which the party was put in power. The President as party leader is therefore endowed with certain powers which were not contemplated by the framers of the Constitution. They are extra-legal so to speak. He is given these powers by force of custom and circumstance. They are just as real

as those given in the Constitution and far more powerful in their relation to legislation.

So far as the Constitution is concerned the President may only recommend measures to Congress and veto any measure of which he disapproves. But he must veto the whole act. He cannot veto the part objectionable to him and let the rest stand. As party leader he is in a more commanding position. He can demand of the members of his party that they pass the legislation which the party promised the people. He was elected on that faith in his party. To this end he may actually have bills drafted, or where they are drafted by a committee of the House or Senate he may revise them until they meet his wishes. As party leader he may also demand new legislation to meet conditions not contemplated in the platform.

These measures are introduced as approved by the President and are known as administration bills. He holds frequent consultations with the party leaders in Congress both at the Capitol and at the White House. His position as party leader occupies more of his time during a session of Congress than do his duties as constitutional executive. It is as party leader that he has opportunity to fight the people's battles in Congress. As regards this dominant participation in legislation and the formulation of a party policy the President exercises the functions of a prime minister. He does not, it is true, take the floor of the

House by way of participation in debate, but each administration measure is in charge of some member of the House who is in touch with the White House and represents its views.

During the last three sessions of Congress—from the Sixty-third, first session, to the Sixty-fourth, first session, inclusive, the measures named below were among those known as administration bills. They were approved by the President before they were introduced. No changes of consequence were made in either House without consulting him. He kept in touch with them during each stage of procedure. They are as follows: The federal reserve act; the repeal of the Panama Canal tolls; the war risk insurance bureau act; the federal trade commission act; the Clayton anti-trust act; the farm loan act; the child labor act; the shipping act; the eight-hour day for railroad employees act; and in the main the new national defense acts reorganizing the army and enlarging the navy.

The above legislation was of prime importance. It is destined to have a farreaching effect on the national life. The President has never, however, attempted to participate in financial legislation except in the instance mentioned of the presentation of a budget by President Taft which was ignored by Congress. What is there to prevent the President from pursuing the same method as to finances that he does as to substantive legislation? His position as party leader gives him his real point of contact with those forces out of which

a budget system may be developed. He is the executive. He is responsible for the administration. It is his constitutional duty to recommend measures to Congress, and as party leader it is his duty also to see that his party in Congress serves the best interests of the nation.

The objection that the President should not be allowed to take the initiative in financial legislation because it is contrary to our theory of government which provides for the separation of the three branches, loses its force in the face of present practice. The President already participates in legislation and actually exercises the legislative initiative while the judiciary legislates constructively by interpretation and application of statutes. The adoption of the national budget system would carry us just one step further in the direction we are already going.

Under the budget system the President would formulate the financial policy for the coming year. This would involve a control on his part of all legislation which may have the effect of putting money into or drawing it out of the Treasury. All extensions of the public service, all reorganizations or consolidations would be in his hands. He would thus control the purse strings. Exception could be made as to the expenses of Congress itself since it might not be well to put the President in a position to starve out Congress. The President would have a double responsibility—to the people as a whole who elected him and to Congress which

is responsible under the Constitution for the finances of the nation.

He would arrive at a financial policy by consultation with the party leaders and with his Cabinet, who are the executive heads of the departments which must spend the money. On the basis of this policy he would prepare the annual budget. Two or three months before Congress met he would, through the Secretary of the Treasury, call upon all of the spending departments for their provisional estimates of expenditure. The Treasury would revise these and present the totals at a Cabinet meeting where agreement would be reached as to the total expenditure. On the basis of these totals the final estimates of the departments would be drawn.

The President of course could not give his personal attention to the details of the budget. He would have to act through some specialized organ of the government under his control. The most natural institution for this purpose is the Treasury Department and it would seem that one of the necessary implications of the budget system would compel an increase in the powers of the Secretary of the Treasury. The Treasury in its relations to the other departments would have to undergo a certain amount of reorganization. Its control over the estimates, except those of the technical branches of the army and navy, would be necessary. It would have the power to revise, reduce, or eliminate any item. The Treasury, represent-

ing the President, would feel a responsibility to the taxpayer for the expenditure of his money. It would be the controlling influence in national finance. It would have a constant contact with the finances of the departments and a knowledge of their needs. The Treasury in its administrative capacity would have nothing to do with the formulation of the financial policy but only with the economic and efficient administration of the finances after the policy has been decided.

On the other hand the Secretary of the Treasury, as a member of the Cabinet and as the chief finance officer of the government would have a great deal to say as to policy. He would have to provide the revenues to meet the expenditures. He would naturally be a potent factor in the party councils. He would in fact become the finance minister of the United States with duties corresponding to those of the Chancellor of the Exchequer of England.

The estimates of expenditures of the departments would be prepared under Treasury supervision. Over the army and navy estimates this would be only nominal. New works, additions, extensions, increases of salaries, new salaries and the like would have to receive Treasury sanction before they could find a place in the estimates. Appeal would lie from the Treasury to the Cabinet. Where new expenditures result as a matter of policy the items would go in as a matter of course, but the Treasury would be responsible for

their proper application. For example, if it should be decided as a matter of policy that every town having between ten and twelve thousand population should have a post-office building of a certain type, the Treasury would have to see that the items in the Post-Office estimates properly carried out this policy.

The Treasury would bring all of the estimates together and work them up into a harmonious scheme of expenditure for the public service. They would be revised estimates. They would represent the bed-rock needs of the government. The Secretary of the Treasury would write a summary reviewing the financial condition of the country, setting forth the results of the operation of the financial measures of the past year; giving comparative statistics of past expenditures; setting forth the totals of the present estimates in convenient form; and adding such explanatory notes as would be necessary to make the estimates intelligible. He would on the revenue side of the budget set forth an estimate of receipts from existing sources of taxation and should the prospect of a deficit appear he would suggest new measures of taxation with an estimate of the amounts they would produce. These would be known as the budget estimates. They would go before the President and his Cabinet for formal approval long enough before December to allow them to be printed and bound by the time Congress assembled.

The local influences which now make their appearance in appropriation bills at all stages would be dealt with only in the preparatory stage of the budget. Projects for new public buildings, river improvements and the like would have first to be submitted to the proper executive department. Should the department's decision favor the project, Treasury sanction would have to be obtained by the department before the item could be put into the current estimates. The Treasury would make its decision with a view of the public service as a whole. The department through its Cabinet officer would have the right to appeal to the whole Cabinet but such appeals would naturally be taken only as regards items of considerable importance.

The budget estimates would now be ready for submission to Congress. Before considering this step it is necessary to outline certain changes that must take place in the legislative procedure in order that the budget system may be put into operation. Congress would yield to the executive what is known as the legislative initiative in finance. The executive having carefully prepared the budget would be allowed to introduce it into the House as a project of law just as though it were one great combined appropriation and revenue bill being reported out of a committee. How could this be done since the President has no authority to introduce measures but can only recommend them? He could not do it in his capacity of constitutional

executive without a constitutional amendment. The point of contact with the House would have to be made in his position as party leader. He could get the budget on the floor of the House just as other administration measures are now introduced.

To make the budget system effective his position as party leader would have to be openly recognized and given a definite status. In forming a financial policy he could call in certain leaders designated by a joint party caucus of the House and Senate; or a joint committee from the two caucuses. The general program as mapped out for the budget could be ratified by the party caucus. The budget could then be introduced by some designated member as the representative of the President with a united party support behind it.

This budget would be a complete and harmonious business program. Any intelligent person could see at a glance the financial provisions for the whole public service. It would be made public at the beginning of the session of Congress and it would be discussed from one end of the country to the other. It would be open and above-board and completely national in scope. The administration would be prepared to defend every item in it. The country would know in advance of legislative action exactly what the government proposed to spend and in what manner. It would also know at the same time by what methods the

government proposed to raise the revenue to meet the expenditure. When it is considered that our budget would involve a total expenditure of nearly two billion dollars a year for the normal operations of the government it can readily be seen that the annual budget estimates would prove to be the most interesting of all public documents.

The budget system would imply certain other changes in procedure which would logically follow the giving to the President the legislative initiative as to the budget. The present committee system of appropriating money would have to be abolished. These standing committees would have no further function either as to recommending appropriations directly or as to reporting bills which would make a demand on the Treasury or on the taxpayers. The President would be given complete control over the preparation of all measures involving revenue or expenditure.

Neither would there be allowed on the floor of the House any amendment by a private member which would tend to increase the budget. The House itself would impose all of these restraints upon itself in order to make the responsibility of the executive complete. Ordinarily the President's party would be in a majority in the House in which case, the budget having already been approved as a party measure, the motive for amendment by the majority party would be lacking. The debate would be chiefly for the purpose of giving the opposition an opportunity to openly criticise the

government's policy and to call for explanations and defences as to various items. This would involve a further innovation. The heads of the departments would have to be given seats and a voice in the debate. They could not be given a vote, but their presence would be absolutely necessary to an efficient and successful piloting of the budget through Congress.

The Senate would of course have to take action similar to that of the House. Its present power of amendment would be relinquished. The field of debate would be similar to that of the House. A clôture rule would have to be applied in both houses to insure the passage of the budget. The department heads would also have a voice in the Senate at least during the debate on the budget.

A complication would arise—as it arises now for that matter—if the President failed to have control over the House or the Senate by virtue of a defeat of his party in the elections as regards either of these houses. Suppose that he lost the House. How could he formulate a financial policy on which to base a budget? It would be certain of defeat. In that event he could not resign. Perhaps some light may be had on this point from the Swiss system. The executive does not resign there upon an adverse vote on the budget. He proceeds to bring in a budget to meet the demands of the legislature. This is one of the problems which the budget system presents to our national legislature as it is now constituted. If the President

were a Democrat, the House Republican and the Senate Democratic, the President could introduce a budget satisfactory to the House by meeting the demands of the Republicans. The Senate could not amend it but it could reject it. But the President as party leader could control his party in the Senate and thus prevent the rejection. It would go through as a Republican budget. This procedure would restore to the House of Representatives its traditional constitutional power over finance.

In any case the budget would go through Congress as a unit. All of its component parts would always be viewed in relation to the whole. It would be discussed and criticised as the business program of the government. When it is ratified by the House, that body would be through with financial legislation for the session. This would leave much more time than it now has for the consideration of other measures. The whole business of Congress would be simplified by the budget system.

After the budget has been ratified it would be executed by the executive departments under Treasury supervision and control much the same as the appropriation and revenue acts are now. Some reorganization would be necessary to coordinate the departments and so relate their finances to the Treasury that the latter would always have a first hand knowledge of all of the movements of the public moneys.

As regards the audit of the accounts a more

radical readjustment would have to be made. Congress, though yielding to the executive the initiative in the preparation of the budget, would have effected two important changes. One, the increase of the responsibility of the executive to Congress in the matter of public finance and the other the loss by Congress of its control over the details of the preparation of financial measures. But Congress cannot yield its primary responsibility to the people for the government finances. Therefore under the budget system, having made the executive responsible for preparation of the budget, Congress would establish some effective organization to audit the accounts. It would also provide some means of control over the accounts as audited.

This could be done by establishing an independent body, like the Court of Accounts in France, which would take over all of the accounts, check them up with the original grants, render decisions on all irregularities and report to Congress. It would be established on the same basis of permanency and independence as the Court of Claims. In fact it might be possible to remodel the Court of Claims so as to take over the functions of a Court of Accounts. While this procedure would provide an effective independent control over the accounts it would not bring home to Congress that vital contact with the budget which might be felt necessary to compensate it for its release of control over the preparatory stages.

The English system, which is highly efficient,

provides this legislative control through a standing committee as has been shown. A similar result could be obtained in this country with certain modifications of the existing organization. The six independent auditors could be brought entirely under the Comptroller of the Treasury and the office of the latter official established upon a permanent non-political basis. He could be made entirely independent of the executive and be appointed for life like the federal judges. He would have functions similar to those exercised by the Comptroller and Auditor-General in England which office was established with the reform of 1866. He would report directly to Congress on the accounts in detail, showing all irregularities, extravagances, losses, and the like.

The several committees of the House and the Senate now having potential jurisdiction over the departmental accounts could be consolidated into one joint standing committee, similar in function to the Committee of Public Accounts of the House of Commons. It would be more effective as a means of critical control if the English example were followed by making it entirely non-partisan and giving the chairmanship to a member of the opposition party. It would meet regularly.

This committee would hold hearings on the accounts just as committees now hold hearings on the estimates. They would call in the various administrative officials who are responsible for the finances of the departments and put them on the

witness stand and publicly examine them concerning any variances between the budget as ratified and the budget as spent. This committee would not examine into questions of policy but would confine itself to an investigation of the departments from the standpoint of economy and efficiency. Its report with the printed testimony would be laid before Congress for its information. The effect of the work of such a committee would be to give Congress a strong control over the budget and over departmental finance. The fact that any official might be called before the committee to explain why or how this or that item was spent in a certain way would serve to keep them vigilant in the discharge of their duties. The officials in the British public service stand more in awe of the Public Accounts Committee than of the House of Commons itself. With the final report on the accounts and the taking action against those responsible for irregularities, the budget would come to a close.

To summarize, the budget system would imply the following procedure: The preparation and submission to Congress by the President of an itemized business program for the government for the coming fiscal year; the ratification of this program by Congress without amendments increasing it on the basis of the principle of executive responsibility; the spending of the money by the executive; the audit of the accounts by some agency independent of the executive but reporting to Congress, and the approval of the accounts by Congress.

CHAPTER XI

CONSTITUTIONAL AND LEGAL QUESTIONS INVOLVED

It seems to be the general supposition that the budget system would make such a radical change in our system of government that it could not be adopted without a constitutional amendment. Upon closer study we find that the traditional and generally accepted theory of our government is not referred to in the Constitution at all. This theory has been handed down as a popular political philosophy and is so widespread that it is often identified with the Constitution itself. The Constitution says nothing about the separation of governmental powers into three co-ordinate branches and nothing about the theory upon which that doctrine is based. And from the fact that some of the state constitutions contained such provisions at the time the federal constitution was drawn up, it may even be inferred that they were consciously rejected by the framers of the latter instrument.

The Constitution has very little to say about finance. No method of procedure is prescribed. A few general provisions are inserted, but these, however, leave a wide latitude for interpretation and application. It seems to have been understood at the time that the English precedents would be followed in financial procedure as in

many other respects. At the very beginning of the government Hamilton presented to Congress the current estimates and the House without the intervention of any standing committees resolved itself into a Committee of the Whole and passed on them. The influence of English procedure here is evident. It may even be assumed that the framers of the Constitution took it for granted that the finances of the government would be handled on the budget plan. It is certain that they had not the remotest idea of the development which has resulted in the present day procedure.

There is nothing in the Constitution about the committee system. This method has grown up outside of that document and to such an extent as to even defeat its spirit. It seems also that the Constitution intended to place the House in a commanding position as to finance with only a limited power of amendment in the Senate. In this they were following the precedent of the English House of Commons. The development has been to make the Senate the dominant branch in finance leaving the more popular branch of Congress in a state of more or less servility.

A more minute examination of the Constitutional provisions relating either directly or indirectly to finance would seem to indicate that a budget system as outlined in the preceding chapter could be put into operation without the necessity of a constitutional amendment. Such an amendment would, however, give to the system a greater

permanence. It would, on the other hand, be a disadvantage if it were so drawn as to render static a system that might need frequent adjustments before a satisfactory solution had been found.

The Constitution does not make any direct reference to the President in relation to public finance but there is a broad provision which implies a responsibility in this respect. It says that the President "shall from time to time give to the Congress information of the state of the Union, and recommend to their consideration such measures as he shall judge necessary and expedient; . . . he shall take care that the laws be faithfully executed." (Art. II, Sec. 3.) These clauses may be applied to the preparation of the budget, its submission to Congress by the executive and its faithful execution. All laws or proceedings necessary to these ends could be enacted under this provision of the Constitution.

The only direct reference to the executive branch of the government in this connection is found in this clause:

"No money shall be drawn from the Treasury, but in consequence of appropriations made by law: and a regular statement and account of the receipts and expenditures of all public moneys shall be published from time to time." (Art. I, Sec. 9.)

This makes it mandatory that Congress ratify the expenditure side of the budget. It does not say that Congress shall prepare the appro-

priation measures. There is nothing here out of harmony with the budget system. It provides for the same procedure that is in vogue in the House of Commons, that is, that no money should be spent by the executive until it had passed the vote of Parliament. It fixes upon Congress the responsibility for legalizing the demands of the executive for money. It seems to be implied that the form of these demands should be determined by the executive. At any rate Congress is left free to ratify the expenditure budget as presented, holding the executive responsible for its general policy and efficient administration.

The second part of the clause provides a constitutional basis for a system of accounting and audit which could be adapted to the budget system. The details in the Constitution are entirely lacking, leaving room for such statutory enactment and administrative procedure as may be necessary to meet whatever conditions that may arise.

So far then as the Constitution is concerned the executive may prepare the budget, recommend its passage to Congress, and give them such other information bearing on finance as he may see fit. He is made directly responsible for the execution of all laws, which would include the budget, and for the rendition of the accounts.

The other provisions of the Constitution bearing on finance relate to Congress. The provision cited above lays upon Congress the obligation to vote all appropriations. The clauses relating to revenue

are more explicit. The makers of the Constitution regarded the power of taxation as of greater importance than the method of spending the revenues collected. This is still the English view, the chief center of interest in the budget being the disclosure by the government of what the scheme of taxation will be for the coming year. In this country where for so long a time we have raised the bulk of our revenues by indirect taxation chiefly through a protective tariff laid in consequence of an economic policy not directly concerned with public finance and through stamp taxes on alcoholic liquors and tobacco, the people do not feel that they are being taxed to support the government. Our chief center of interest has been for years in the appropriations rather than in the revenues. The developments of the past few months which have necessitated a vast increase in appropriations have for the first time turned the attention of the people to direct taxation as a means of raising revenue.

The Constitution provides that

"All bills for raising revenue shall originate in the House of Representatives; but the Senate may propose or concur with amendments as on other bills." (Art. I, Sec. 7.)

Here we see the intention to make the House paramount, leaving to the Senate only the possibility of amendment. The development has been such that the Senate now in fact uses its power of amendment to rewrite the bill as it sees fit and

then forces the House to accept practically all of the amendments. There is nothing, however, in this clause to prevent the executive from proposing and drafting the revenue measures and having them introduced into the House. They would still "originate" in the House as the term is employed in the Constitution. In fact such a procedure would be far more in keeping with the spirit of the Constitution than is the present practice which allows the Senate to usurp the functions of the House.

The other provisions of the Constitution as to finance relate to the powers of Congress. They are as follows:

"The Congress shall have power to lay and collect taxes, duties, imposts and excises, to pay the debts and provide for the common defense and general welfare of the United States. . . .

"To borrow money on the credit of the United States.

"To raise and support armies, but no appropriations to that use shall be for a longer term than two years.

"To provide and maintain a Navy." (Art. I, Sec. 8.)

To these must be added the Sixteenth Amendment which reads as follows:

"The Congress shall have power to lay and collect taxes on incomes, from whatever source derived, without apportionment among the several states, and without regard to any census enumeration." (Art. XVI.)

The Constitution also provides that "Each House may determine the rules of its proceedings" (Art. I., Sec. 5.) Since the budget is largely a question of method of procedure this clause is of the utmost importance. The whole committee system of appropriating money is based upon it. So also are the privileges of the floor regulated by the rules of the two houses. These rules can be changed by Congress at any time by a simple vote. It is here that the budget system will have its largest contact. Certain changes in these rules could be made which would go far toward putting that system into active operation.

A rule could be adopted taking all financial measures away from the standing committees and vesting all jurisdiction as to expenditures and revenues in the House in the Committee of the Whole. Since the executive would prepare the budget there would be left no work for these committees to do in this regard.

Another rule could be adopted permitting the executive to introduce the budget into the House. This he could do anyway indirectly through some member of his party on the floor, but it would be simpler and more orderly to allow him to introduce it directly. Under the clause above cited it is made the duty of the President to recommend measures to Congress, so this rule would be entirely in harmony with the Constitution. It would only be going a step further and treating his recommendations as to finance as a project of law, that is, as a bill.

Another rule could be adopted giving seats and a voice in the debates on the budget to the heads of the executive departments. Under the existing rules they have the privilege of the floor but may not speak. The rule could not give them a vote nor could the President select as members of his Cabinet any one who was a member of Congress. This is prohibited by that clause of the Constitution which says: "No person holding any office under the United States, shall be a member of either house during his continuance in office." (Art. I., Sec. 6.) A simple rule of the House or Senate allowing the representatives of the executive to be present to explain and defend the budget would have the desired effect. The vote would not be essential. It is not exercised by all of the ministry in France nor by any of the executive representatives in Switzerland.

Still another rule could be adopted whereby Congress would refuse to entertain any motion, resolution, amendment or other proceeding which would change or derange the budget as presented by the executive, except with the latter's consent. This would prohibit amendments by private members on the floor of the houses. This principle lies at the very base of budgetary procedure. There is nothing however in it to prevent Congress from rejecting the budget in its entirety.

More than two hundred years ago the House of Commons adopted a rule or standing order which provided that the House would proceed upon no

measure making a demand upon the Treasury except that it be recommended by the executive government. This standing order may be considered a part of the British constitution. It is the cornerstone of the budget system in England. Under it the executive is given complete control over the actual preparation of the budget and is assured that there will be no increases made by Parliament except at the executive's consent. Potentially the control of the House of Commons over the purse is absolute. The Lords cannot amend and there is no veto by the executive. This rule of self-limitation was adopted and has been maintained in the interest of greater efficiency and economy in the public service by concentrating the responsibility for the initiative in finance upon the executive alone.

In order to provide an organization for a closer control over the execution of the budget Congress could adopt another rule creating one central joint committee having the combined powers of the departmental committees which now have potential jurisdiction over the accounts. This committee could be made the active point of contact of Congress with the audited accounts.

Thus it is seen that the cardinal features of the budget system may be established not only without amending the Constitution but without even the passage of a statute. The adoption of five new rules in the House and in the Senate and the readjustment of the existing rules affected by them

would give the executive the power to prepare the budget; allow him to introduce it as a project of law; provide seats and a voice in the debate for the heads of the departments; provide for refraining from amendments in Congress except with the consent of the executive; and for a thorough examination of the annual accounts by a standing committee of Congress.

The Constitution further provides that Congress shall have power

"to make all laws which shall be necessary and proper for carrying into execution the foregoing powers, and all the powers vested by this Constitution in the government of the United States, or any department or officer thereof." (Art. I, Sec. 8.)

Under this provision Congress could pass whatever legislation there might be needed to adapt the organization of the executive departments to the needs of the budget system. These would be chiefly in the form of certain amendments to existing laws and the repeal of others. Some of the most obvious changes may be indicated.

The form of the budget, which includes the regulations for preparing the estimates, would be put entirely into the hands of the executive acting through the Treasury Department. The entire financial organization of the government would be co-ordinated and placed in a more direct relation to the Treasury. The Treasury could be relieved of many of its purely administrative functions and

an internal reorganization effected so as to provide the proper budgetary machinery which would act in behalf of Congress on one hand and the President on the other. A separate audit department would be created outside of the executive branch of the government. And to gain the best results the classified civil service would have to be put on a more permanent basis and extended to all of the higher administrative offices even those paying as high as ten thousand a year. This would offer inviting careers to young men of unusual ability who through promotion upon an efficiency system could gradually rise to places of responsibility in the public service. The government would thereby train its own experts who would become invaluable aids in running the executive departments. The most mature and trustworthy of these would naturally gain positions in connection with the finances of the government.

CHAPTER XII

RECENT DEVELOPMENTS TOWARD A NATIONAL BUDGET SYSTEM

PRESIDENT TAFT seems to have been the first chief executive to turn his interested attention to the demand of the public for greater economy in the administration of the federal government. In December, 1909, he asked and secured from Congress the sum of $100,000 to allow him to undertake an inquiry into the operation of the executive departments, so as to be able to effect such changes as would be found necessary such as the executive could make and to recommend others to Congress. After a preliminary inquiry the President's Commission on Economy and Efficiency was organized. It was entirely non-partisan in conception and purpose and was composed of a small number of men of distinguished ability and wide experience in the study of public affairs.

The preliminary inquiry had revealed the fact that the chief source of weakness in the executive government was the lack of a system which would allow it to present to Congress a budget for the annual finances. The first question to engage the attention of the Commission was the need for a national budget. An analysis of the public ex-

penditures was made and new forms for the departmental estimates were drawn up which would conform to the budget idea of unity and co-ordination. These forms were submitted to the departmental heads upon executive authority to be filled out with the idea of making a budget. A considerable delay was caused by the fact that the ordinary estimates had also to be filled out according to law and submitted to Congress. The new estimates and the old estimates were along different lines so that it was not until after the beginning of the year of 1912 that the new ones were ready for the President. He had asked for them by November 1st.

In the meantime the President sent a message to Congress on January 17, 1912, outlining the work of the Commission and indicating some of the results obtained. A part of this communication was devoted to a discussion of the advantages of the budget system from which the following quotation may be made:

"The United States is the only great Nation whose Government is operated without a budget. This fact seems to be more striking when it is considered that budgets and budget procedures are the outgrowth of democratic doctrines and have had an important part in the development of modern constitutional rights. The American Commonwealth has suffered much from irresponsibility on the part of its governing agencies. The constitutional purpose of a budget is to make

government responsive to public opinion and responsible for its acts. A budget should be the means of getting before the legislative branch, before the press, and before the people a definite annual program of business to be financed; it should be in the nature of a prospectus, both of revenues and expenditures; it should comprehend every relation of the Government to the people, whether with reference to the raising of revenues or the rendering of service."

It was not until June 27, 1912, that the report of the Commission on "The Need for a National Budget" was presented to Congress by the President with a message of approval. This report is a document of nearly 600 pages. It contains a scheme of reorganization of the nation's finances according to the budget idea. The President sought through it to suggest to Congress a means whereby the executive and the legislative branches might co-operate in establishing the finances of the government upon a business basis.

Within a few days after submitting this report President Taft ordered the departments to proceed with the preparation of the estimates for the next fiscal year according to the form and method recommended in the report of the Commission to which reference has just been made. The President intended to revise these estimates and use them in the making up of a budget which would be submitted to Congress in December.

Unfortunately for budgetary reform both

Houses of Congress at this time were in organized opposition to the President due to differences in policy in regard to questions wholly unrelated to departmental finance. The House was already Democratic and the Senate controlled by a coalition of Democrats and so-called Progressive Republicans. The country seemed almost torn asunder upon questions of judicial reform, social justice, "big business" and a reinterpretation and re-evaluation of the idea of democratic government itself. Much of the hostile criticism then current was directed against the President himself. It is therefore not so surprising to find that Congress, when it learned of the President's proposed change in the estimates, inserted in one of the appropriation bills—the sundry civil bill—a provision prohibiting the departments from submitting the estimates in any form except according to those provided by the existing law.

This procedure rendered it rather difficult for the President to put his scheme through. He insisted, however, upon his constitutional authority to submit the estimates in the form he saw fit and directed the departments to proceed to draw up the estimates both according to the old form for Congress and according to the new form for the President. The new estimates, however, were not completed until about February 1st and on February 26th the budget was submitted to Congress. It was referred to the Committee on Appropriations and later printed but Congress

took no further action on it. President Taft went out of office five days later and a new administration with a new Congress came in.

The chief effect of the efforts of President Taft toward fiscal reform was to give wide publicity to the budget idea. He had had little effect on Congress, but he laid the foundation for future efforts and served to awaken still further in the public mind the need for the adoption of the budget system. There has been no cessation of interest in the subject. On the contrary, the agitation for this reform has steadily increased.

Near the close of President Taft's administration the National Chamber of Commerce—an organization of the leading commercial enterprises of the United States—submitted a referendum to its members on the question whether the federal government should adopt the national budget system. The vote was almost unanimous in favor of such action. The business interests of the contry to-day are practically a unit for this reform by the federal government.

President Wilson, from the very outset of his administration, found himself confronted with one grave problem after another both in the foreign relations and in domestic reform. These were rather removed from the field of public finance and were so important that they absorbed all of the energies of the executive. Nevertheless the movement for a budget system continued to be agitated in the press and began to find supporters among

members of Congress, some of whom had formerly opposed it. Mr. Fitzgerald, for many years a member of the Committee on Appropriations and for the past six years its chairman, seeing the rising tide of governmental expenditures with the constant necessity of facing a deficit in the Treasury or imposing new taxation, has within recent months advocated radical reforms which would in effect put a budget system in force. On June 24, 1913, he made a carefully prepared speech on the floor of the House on the need for fiscal reform in which he made an analysis of existing evils, reviewed numerous opinions of statesmen and publicists, and set forth his views as to the proper remedy. Mr. Fitzgerald is not a radical and he may be considered to represent in his leadership a considerable body of opinion in the Democratic party. The following extracts are taken from this and subsequent speeches of his in Congress:

"If the principle enunciated by Mr. Gladstone be accepted as sound that the constitutional duty of a legislative chamber is not to augment but to decrease expenditure—the solution of all problems confronting us may be readily solved. A few simple changes in our system will completely establish the system of responsible executive control of our budget, while retaining complete control of the Treasury in the representatives of the people.

"To bring about this result two things are necessary—the duty should be imposed upon the

Secretary of the Treasury to revise the various estimates to be submitted to Congress, and Congress should be deprived of the power to augment any request for money or to originate legislation imposing obligations upon the Treasury. Such is the rule in Great Britain as well as in Switzerland, where this system has been developed to its highest perfection.

"These suggestions are radical, but not shots at random. When the Democratic members of the Committee on Rules had been selected for the Sixty-Second Congress I proposed a rule prohibiting amendments to appropriation bills which would increase the committee recommendations above the departmental estimates or which proposed appropriations for which no estimates had been submitted. It was a suggestion along lines that reform in the House must eventually follow; but it was not adopted, as the Committee was unwilling to recommend a rule that would have deprived the individual member on the Committee of the Whole House on the State of the Union of rights enjoyed by committees which prepare appropriation bills. I should have supported such a rule if it extended to the committees, and I am convinced that in time even more radical changes will be imperative, even though the individual member be deprived of many privileges which he now enjoys."

Again on February 6, 1915, when this question was being discussed in the House Mr. Fitzgerald said:

"One thing that is essential to accomplish in

this body—and it will be done some day—is to deprive the individual member of Congress of the right to initiate expenditures. . . . Take away from members of this House the right to initiate expenditures and they will examine and scrutinize and take care that no unsound or improper estimate originating in a department is rewarded by an appropriation."

In the spring and summer of 1915 the Committee on State Finances of the New York State Constitutional Convention held hearings on the budget provisions of the proposed new Constitution. Among the distinguished gentlemen who appeared before this Committee were Chairman Fitzgerald of the Federal Appropriations Committee of the House, Pres. A. L. Lowell of Harvard, Pres. Frank J. Goodnow of Johns Hopkins and Ex. Pres. Wm. Howard Taft. Mr. Taft explained his experiences in budgetary reform; Pres. Lowell explained the English system; Pres. Goodnow discussed various applications of the budget system to the State; and Chairman Fitzgerald described the federal system and gave his experiences as chairman of the Appropriations Committee.

Mr. Fitzgerald appeared before the Committee on May 26, 1915. He pointed out many of the aspects of the federal procedure in finance that he had dwelt upon in his speeches in the House. In the course of his remarks he made the following statements:

"I think that what we should try to do is to

fix more emphatically responsibility for the initiation upon the executive, and try to emphasize to the legislature the importance of its duties, and simply to put the checks that now become necessary upon them." (Document 15, p. 39.)

"I have not the slightest hesitation in saying that much better results would be obtained if the individual in the two houses of Congress could not initiate expenditure by increasing the amount proposed by the executive, or proposing expenditures that the executive did not wish, but I would not make that absolutely impossible, but would make it so difficult, and loading him down, that it would only be done under the most peculiar and extraordinary circumstances." (Document 15, p. 46.)

Near the close of the third session of the Sixty-third Congress the caucus of the Democratic members of the House appointed a committee to inquire into and report to it at the opening session of the Sixty-fourth Congress on the question of adopting some sort of budget system. This Committee met a few times in November and December, 1915. While they agreed as to the evils to be remedied they appeared hopelessly divided as to a method of procedure to remedy them. No practical results came from this step other than the further agitation of the subject.

President Wilson, although he has not yet taken the matter up with Congress, has been in favor of a national budget system since the beginning of his career as a publicist. In his work on "Congres-

sional Government" published in 1885, he made a clear analysis of the defects of the committee system as compared with the English system of executive control. His description of "log-rolling" methods are as true to-day as then. Also in his "Constitutional Government," being a series of lectures delivered at Columbia University the last year he was president of Princeton, his exposition of the office of the President of the United States clearly harmonizes with the idea of a budget system.

That President Wilson's interest in this subject has continued during his entire career is made manifest by a letter which he had occasion to write to Senator Tillman on January 30, 1913—about one month before his inauguration—in which he said:

"Ever since I was a youngster I have been deeply interested in our methods of financial legislation. Ever since then I have insisted upon the absolute necessity of a carefully considered and wisely planned budget, and one of the objects I shall have most in mind when I get to Washington will be conferences with my legislative colleagues there with a view to bringing some budget system into existence. This business of building up the expense of the nation piece by piece will certainly lead us to error and perhaps embarrassment."

Faced almost at the outset of his administration with a world cataclysm and with the urgent need

of domestic reforms of farreaching significance the President has perhaps found it inopportune or impossible to carry out this intention. It is reasonable to suppose that during his next term he will find occasion to take some action along these lines, for the public interest in a national budget system has increased rather than abated.

This demand for fiscal reform is now so widespread that the Progressive, Republican, and Democratic parties each recognized it by putting a provision in their platforms for the 1916 Presidential election pledging themselves to the adoption of a budget system. These three parties represented at this time all shades of opinion from radicalism to conservatism. The following are the provisions mentioned:

The Progressive platform advocated "making a new standard of governmental efficiency through a complete civil service system, a national budget, and the destruction of 'pork barrel' legislation." The Republican platform condemned the "wasteful appropriations" of the Democratic administration,

"and of its opposition to and rejection of President Taft's oft-repeated proposals and earnest efforts to secure economy and efficiency through the establishment of a simple businesslike budget system to which we pledge our support and which we hold to be necessary to effect any real reform in the administration of national finances."

In his speech accepting the Republican nomina-

tion for President, July 31, 1916, Mr. Hughes made the following remarks on the budget system:

"It is time that we had fiscal reform. We demand a simple businesslike budget. I believe it is only through a responsible budget, proposed by the executive, that we shall avoid financial waste and secure proper administrative efficiency and a well balanced consideration of new administrative proposals."

The Democratic platform under the heading "Economy and the Budget," reads as follows:

"We demand careful economy in all expenditures for the support of the government, and to that end favor a return by the House of Representatives to its former practice of initiating and preparing all appropriation bills through a single committee chosen from its membership, in order that responsibility may be centered, expenditures standardized, and made uniform, and waste and duplication in the public service as much as possible avoided. We favor this as a practicable first step toward a budget system."

With the idea of the budget system becoming daily more widely diffused, with practically the unanimous support of the business interests of the country behind it, and with the Progressive, the Republican and the Democratic parties pledged to its adoption, it seems reasonable to expect some definite action by the Sixty-fifth Congress toward budgetary reform.

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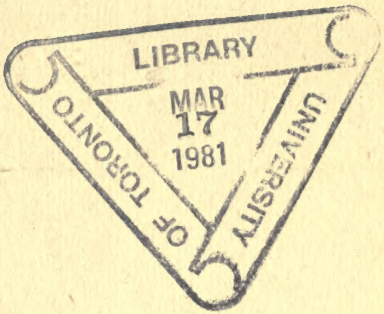
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